

FHA INVESTIGATION

HEARINGS
BEFORE THE
COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE
EIGHTY-THIRD CONGRESS
SECOND SESSION
PURSUANT TO
S. Res. 229

PART 2

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FHA INVESTIGATION UNDER SENATE RESOLUTION 229

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CONTENTS

Testimony of—	Page
Adams, Russell, supervisor-investigator, and Harold H. Koontz, investigator, California State Contractor's License Board.....	1612
Aldrup, Richard F., Norwalk, Calif.....	1739
Anderson, Miss Frances, Baldwin Gardens, Los Angeles, Calif., accompanied by Henry Attias and Arthur Goldman, counsel.....	1449
Audibert, Christopher, Bronx, N. Y.....	1425
Barringer, Thomas C., Director, Federal Housing Administration, District of Columbia.....	862, 880
Bauer, R. J., president, Los Angeles Better Business Bureau.....	1713
Bean, Mrs. O. C., Los Angeles, Calif.....	1657
Blystad, Mrs. John, Franklin Square, Long Island, N. Y.....	1370
Boyer, Louis, Carson Park, Los Angeles, Calif.....	1547
Brett, Jerome, East Orange, N. J., accompanied by Charles Blume, counsel.....	1336
Burch, Mrs. Lena, Artesia, Calif.....	1650
Cafritz, Morris, Parkland's Manor, Washington, D. C., etc., accompanied by John J. Wilson, counsel.....	983
Cook, William H., investigator, Senate Banking and Currency Committee.....	1308, 1385
Cooper, Stanley, Permastica Corp., accompanied by Abraham L. Doris, counsel.....	1411
Crawford, Joe E., Denver, Colo.....	1692, 1705
Davidson, H. V., Director, Long Beach, Calif., Federal Housing Administration.....	1605
Deragarabedian, Mrs. Mary, Burbank, Calif.....	1726
Dilbeck, Mrs. S. A., East Los Angeles, Calif.....	1646
Dinkins, Clarence M., assistant counsel, Banking and Currency Committee.....	871
Du Bois, Herbert, and Josiah E. Du Bois, Parkway Apartments, Etc., Haddonfield, N. J.....	949
Elliot, Charles, San Francisco, Calif.....	1453
Firks, Samuel, Holly Park Knolls, Englewood, Calif.....	1559
Gallet, Simon, president, Coordinating Council of 213 Cooperatives.....	1178
Garthson, Louis, Creative Home Modernizers of New Jersey, accompanied by Mordecai Sarbone, counsel.....	1375
Golden, Maurice Henry, West Los Angeles, Calif., accompanied by William Strong, counsel.....	1474
Grace, George, New York, N. Y., accompanied by William W. Kleinman, counsel.....	1144
Grace, Thomas G., Brooklyn, N. Y., accompanied by William W. Kleinman, counsel.....	1162
Halk, George M., Jr., Dry Dock Savings Bank, New York, N. Y.....	1276
Hall, Albert, Los Angeles, Calif.....	1733
Harter, Mrs. Ruth, Van Nuys, Calif.....	1666
Hauser, Russell L., assistant vice president, Chemical Bank & Trust Co., accompanied by Sherman Woodward, counsel.....	872
Hedges, Byron, investigator, Senate Banking and Currency Committee.....	1280
Hillegas, Mrs. Paul, Pomona, Calif.....	1730
Hirsch, Alexander P., Farragut Gardens, Brooklyn, N. Y., accompanied by Gerald Mayer, counsel.....	1224
Hobson, Raymond S., St. Albans, Long Island, N. Y.....	1367
Jackson, Mrs. Ruth, The Woodner, Washington, D. C.....	1105
Kachow, Kenneth, Anchorage, Alaska.....	1483
Kent, Josephine, Dorrie Miller Housing Co., Brooklyn, N. Y.....	1307
Korman, A. N., Stone River Project, Murfreesboro, Tenn.....	882

Testimony of—Continued	Page
Lassiter, Robert, Stone River Project, Murfreesboro, Tenn.....	889
Lopez, Mrs. Lupe, East Los Angeles, Calif.....	1653
MacKay, Dr. Eaton M., Beverly Hills, Calif.....	1430
Maiorano, Louis, Hazleton, Pa.....	1372
Marcus, George I., Hackensack, N. J., accompanied by Morris Ratner, accountant.....	1065
Mason, Norman P., Acting Commissioner, Federal Housing Admin- istration, accompanied by Louis A. Trevas, Counsel, Housing and Home Finance Agency.....	878
Mason, Dr. Vern R., Beverly Hills, Calif.....	1432
McFarland, Walter P., Arlington Towers, Arlington, Va., accom- panied by Milton G. Gould, counsel.....	845
McKenna, William F., Deputy Administrator, Housing and Home Finance Agency.....	1126
Medine, Leigh M., president, Conference of Presidents of FHA Section 213 Cooperatives.....	1201
Millar, Alex K., Harbor Hills, Lomita, Calif., accompanied by Sidney Laughlin, counsel.....	1568
Mitchell, Kenneth F., Los Angeles, Calif.....	1479
Moses, Horace I., Glendale, Calif., accompanied by James B. Reece, counsel.....	1459
Murray, William D., Jr., loan representative, Federal Housing Administration, Long Beach, Calif.....	1707
Muss, Alexander, Parkway Gardens, Brooklyn, N. Y., etc., accom- panied by David Colby, accountant.....	907
Muss, Charles, Northridge Cooperative, New York, N. Y.....	1285
Nicholson, Mrs. Helen, Brooklyn, N. Y.....	1423
Orlian, Israel, Sundawn Gardens, Brooklyn, N. Y., etc., accompanied by Robert H. Winn, counsel.....	1387
Ostias, Harry L., Kew Gardens Hills, etc., accompanied by Robert H. Winn, counsel.....	1396
Pendergast, John, executive assistant, Federal Housing Administra- tion, San Francisco, Calif.....	1633
Pierce, Mrs. Vivian, Puente, Calif.....	1721, 1738
Prindle, Col. Hoyt, USAF, accompanied by George S. Robinson, Deputy Special Assistant for Installations to the Secretary of the Air Force; and Richard Talley, Assistant Chief of the Family Hous- ing Group.....	895
Punia, Charles, Blossom Gardens, New York, N. Y., etc., accom- panied by Charles Wilson, counsel.....	1291
Regan, Leo, Los Angeles, Calif.....	1669
Rencher, Mrs. Lula, Los Angeles, Calif.....	1723
Riccitelli, Peter, Watervliet, N. Y.....	1406
Riebe, Mrs. Elizabeth, North Hollywood, Calif.....	1664
Rodman, Samuel, Atlantic Gardens, Washington, D. C., etc., ac- companied by Gerhard Van Arkel, counsel.....	919
Rubenstein, Hyman, Williams Field Air Base, Phoenix, Ariz., accom- panied by James E. Flynn, counsel.....	1675
Salmon, John William, Los Angeles, Calif., accompanied by Edward S. Shattuck, counsel.....	1465
Schaller, Warren G., Pelham Manor, N. Y.....	1141
Schnitzer, Harold J., Hill Air Force Base, Portland, Oreg., accom- panied by Harold B. Hutchinson, counsel.....	1576
Sporkin, Charles and Herbert DuBois, Parkway Apartments, Haddon- field, N. J., etc., accompanied by Josiah E. DuBois.....	949
Staples, Clinton C., Las Vegas, Nev.....	1503
Steinmeyer, Hugo A., vice president and counsel, accompanied by Edward Q. Benton, assistant cashier, Bank of America.....	1741
Taylor, J. Arthur, Los Angeles, Calif.....	1627
Thomas, Fred S., Assistant Director, Federal Housing Administra- tion, Los Angeles, Calif.....	1633
Traub, Abraham, Farragut Gardens, Brooklyn, N. Y., etc., accom- panied by Milton C. Weisman, counsel.....	1226, 1243, 1358
Trice, Franklin A., Lewis Gardens, Richmond, Va., etc., accompanied by Fred G. Pollard, counsel.....	1004

CONTENTS

v

	Page
Testimony of—Continued	
Tsvetkoff, Miss Muriel, general manager, Better Business Bureau, San Francisco, Calif.-----	1660
Von Hausen, Charles, The Woodner, Washington, D. C.-----	1091
Vidaver, Richard, Chicago, Ill.-----	981
Waters, Laughlin, United States attorney for the southern district of California.-----	1609
Weber, Arthur B., Wilshire la Cienega Apartments, Los Angeles, Calif., etc., accompanied by Lou Edelberg, counsel.-----	837, 1433
Weingart, Ben, Carson Park, Los Angeles, Calif., accompanied by Fred Horowitz, counsel, and Miss Esther Hay, accountant.-----	1522
Whitchurch, C. L., Las Vegas, Nev.-----	1697
Wohl, Alfred, Kew Terrace Apartments, Flushing, N. Y., etc., accompanied by Robert H. Winn, counsel.-----	1331
Wolosoff, Morty, Alley Pond Park, Brooklyn, N. Y., accompanied by Robert H. Winn, counsel, and Alfred F. Lowett, accountant.-----	1309
Woodner, Miss Beverley, The Woodner, Washington, D. C.-----	1109
Woodner, Ian and Lewis Rowen, The Woodner, Washington, D. C., etc., accompanied by Robert H. Winn and Joseph M. Williamson, counsel.-----	1021, 1114
Woodner, Max, The Woodner, Washington, D. C.-----	1095
Wright, Arthur C., Home Builders Institute, Los Angeles, Calif.-----	1593
Yousem, Philip, Union Housing, Venice, Calif., accompanied by Alfred Gitelson and Julian Weiss, counsel.-----	1563
Letters, memorandums, exhibits, etc., submitted for the record by—	
Barringer, Thomas C., Director, Federal Housing Administration, District of Columbia:	
Letter to Mr. McFarland, Arlington Towers.-----	865
Letter to Chemical Bank & Trust Co., re Arlington Towers.-----	866
Memorandum of discussion with Mr. Powell.-----	868
Better Business Bureau, Los Angeles: List of construction firms against whom complaints have been filed.-----	1714
Carlton, Col. Bert M., United States Air Force: Affidavit on Stone River Homes.-----	897
Diller, Richard S., Baldwin Gardens, Los Angeles, Calif.:	
Testimony in executive session.-----	1443
Sales prices of houses in tract.-----	1451
DuBois, Herbert, and Josiah E. DuBois, Camden, N. J.: Letter to chairman, with exhibits.-----	967
Golden, Maurice Henry, West Los Angeles, Calif.: Letter of support from employees FHA Los Angeles office.-----	1479
Grace, Thomas G., Brooklyn, N. Y., accompanied by William W. Kleinman, attorney:	
Memorandum of telephone conversation between Mr. Grace and Mr. Neville.-----	1173
Letter, October 25, 1951, from Mr. Grace to Mr. Neville.-----	1173
Letter, December 3, 1951, from Mr. Neville to Mr. Grace in reply.-----	1174
Letter, December 6, 1951, from Mr. Grace to Mr. Neville.-----	1175
Letter, December 21, 1951, from Mr. Neville to Mr. Grace.-----	1175
Letter, December 26, 1951, Mr. Grace to Mr. Neville.-----	1175
Statement of outside activities.-----	1175
Letter, March 26, 1952, Mr. Neville to Mr. Grace.-----	1176
Letter, April 24, 1952, Mr. Grace to Mr. Neville.-----	1176
Letter, May 21, 1952, Mr. Neville to Mr. Grace.-----	1176
Letter, May 23, 1952, Mr. Grace to Mr. Neville.-----	1177
Hirsch, Alexander P., Farragut Gardens, Brooklyn, N. Y.: Advances made, November 1947 to October 1949.-----	1235
Housing and Home Finance Agency:	
Statement of Mr. McKenna.-----	1126
Survey of Alaska Housing Authority.-----	2512
Kadow, Kenneth, Anchorage, Alaska:	
Letter to Mr. Mortonson.-----	1494
Letter to Mr. Slater.-----	1499
MacKay, Dr. Eston M., Beverly Hills, Calif.: Certificate for Mr. Diller.-----	1432
Marcus, George I., Hackensack, N. J.:	
Letter of apology.-----	1065
Schedule of fees and disbursements, section 608 closings.-----	1089

	Page
Letters, memorandums, exhibits, etc.—Continued	
Mason, Dr. Verne R., Beverly Hills, Calif.: Certificate for Mr. Diller	1432
McKenna, William F., Deputy Administrator, Housing and Home Finance Agency: Statement	1126
Medine, Leigh M., president, Conference of Presidents of FHA Sec- tion 213 Cooperatives:	
Statement	1202
Letter, Mr. Feay to Mr. Cole	1207
Letter, Mr. Feay to Senator Lehman	1208
Letter to chairman concerning recommendations	1210
Rodman, Bella, New York, N. Y.; accompanied by Clifford J. Durr, counsel: Testimony before Committee on Un-American Activities	924
Rodman, Samuel J., New York, N. Y. testimony before Committee on Un-American Activities	928
Salmon, John William, Los Angeles, Calif.; Names of corporation donors to Tress Salmon Hospital Fund	1473
State Contractor's License Board, California: Sample home model sales letters	1672
Woodner, Ian, The Woodner, Washington, D. C.:	
Photograph of The Woodner	1035
Typical floor plan	1036
Wright, Arthur C., Home Builders Institute, Los Angeles, Calif: Press release	1597

FHA INVESTIGATION

THURSDAY, JULY 22, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, at 10 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Goldwater, and Robertson.

Also present: William J. Simon, general counsel, FHA investigation.

The CHAIRMAN. The committee will please come to order.

Our first witness will be Mr. Weber, from Los Angeles. Mr. Weber will you please come forward?

Will you please be sworn, Mr. Weber.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF ARTHUR B. WEBER, WILSHIRE LA CIENEGA GARDENS, LOS ANGELES, CALIF., ETC., ACCOMPANIED BY LOU EDELBERG, COUNSEL

Mr. WEBER. I do.

The CHAIRMAN. Thank you very much. If you will just be seated. Will you give your full name to the reporter, please?

Mr. WEBER. Arthur B. Weber.

Mr. SIMON. Would you give your address, Mr. Weber?

Mr. WEBER. My address is 6338 Wilshire Boulevard, Los Angeles.

The CHAIRMAN. I would like to make this statement for the record.

Mr. Weber is in here of his own accord, paid his own expenses from Los Angeles. He came in voluntarily to be of assistance in this matter. I want the record to show that.

Mr. SIMON. Mr. Weber, what is your occupation?

Mr. WEBER. Builder.

Mr. SIMON. Did you have two corporations in California that built section 608 projects?

Mr. WEBER. Yes, sir.

Mr. SIMON. What are the names of those two corporations?

Mr. WEBER. Wilshire la Cienega Gardens Co., and the other one is the Baldwin Gardens Co.

Mr. SIMON. What was the amount of the FHA mortgage on Baldwin Gardens?

Mr. WEBER. The commitment was \$2,866,400.

Mr. SIMON. What was the amount of the FHA commitment on Wilshire la Cienega Gardens?

Mr. WEBER. \$1,937,600.

Mr. SIMON. What was the date of the commitment in Baldwin Gardens?

Mr. WEBER. Baldwin Gardens dated the 16th of February 1949.

Mr. SIMON. What was the date of the commitment in Wilshire la Cienega?

Mr. WEBER. December 23, 1948.

Mr. SIMON. When were the projects completed?

Mr. WEBER. Wilshire la Cienega, notice of completion was filed on the 30th of August, 1949, and Baldwin Gardens, December 15, 1949.

Mr. SIMON. Were you able to get, Mr. Weber, the capital stock of these companies?

Mr. WEBER. I was.

Mr. SIMON. What is the capital stock of Baldwin Gardens?

Mr. WEBER. Baldwin Gardens was \$50,700, and surplus paid in of \$197,826.59.

Mr. SIMON. What was the capital stock in Wilshire la Cienega?

Mr. WEBER. \$39,100, surplus paid in, \$152,000.

Mr. SIMON. How much of that stock was preferred and how much was common, do you know?

Mr. WEBER. Class A preferred and class B preferred, \$38,100.

Mr. SIMON. \$100 was for the FHA commissioner and the \$38,000 you own; is that right?

Mr. WEBER. Yes, sir.

Mr. SIMON. So that the common stock in Wilshire la Cienega was \$1,000; is that right?

Mr. WEBER. Yes, sir.

Mr. SIMON. How about Baldwin Gardens?

What was the preferred stock?

Mr. WEBER. \$100 was the class A for the FHA, as you state, and the class B preferred was \$49,600, common stock, \$1,000.

Mr. SIMON. Common stock was \$1,000 again?

Mr. WEBER. Yes, sir.

Mr. SIMON. Out of the proceeds of the mortgage loan were you able to pay or repay yourselves for the cost of the land and all of the loans that you had made to the corporation and redeem the preferred stock in addition to paying all the construction costs?

Mr. WEBER. We were.

Mr. SIMON. So that by the time you finished the building, you had repaid everything you put in there except the \$2,000 of common stock in each company; is that right?

Mr. WEBER. Yes, sir.

Mr. SIMON. How much of the mortgage proceeds was left over in Baldwin Gardens after you had repaid yourself for the cost of the land and redeemed the preferred stock and returned the loans and paid all the construction costs?

Mr. WEBER. \$277,154.

Mr. SIMON. How much was left over in Wilshire la Cienega after you had repaid all the costs and the loans and redeemed the preferred stock?

Mr. WEBER. \$110,389.

Mr. SIMON. So that in the two projects you had roughly \$387,000 left over out of the mortgage after paying everything back that you had put in except the \$1,000 capital in each corporation?

Mr. WEBER. Yes, sir.

Mr. SIMON. What was done with the \$387,000?

Mr. WEBER. That was distributed to the stockholders.

Mr. SIMON. I believe you own one-third of each corporation?

Mr. WEBER. Yes, sir.

Mr. SIMON. And you had two partners in Baldwin Gardens?

Mr. WEBER. I had two partners in la Cienega.

Mr. SIMON. Who were the two stockholders in Baldwin Gardens?

Mr. WEBER. Richard S. Diller, and I. L. Kalsman.

Mr. SIMON. Who were the two other stockholders in the other corporation?

Mr. WEBER. Richard S. Diller and Herman Kranz.

Mr. SIMON. Mr. Weber, do you have with you copies of your applications for an FHA loan?

Mr. WEBER. I do, sir.

Mr. SIMON. Could you let me see them, please?

The CHAIRMAN. You have a form that you filled out for FHA too, do you not?

Mr. WEBER. Yes, sir.

The CHAIRMAN. May we see that too, please?

It was filled out just recently?

Mr. WEBER. Yes, sir.

Mr. SIMON. Do you have the same documents for the Wilshire la Cienega Co.?

Mr. WEBER. Yes, sir.

The CHAIRMAN. Mr. Weber, I believe you testified in executive session that you had attended a meeting in Los Angeles in 1948, at which there were some 15 or 20 other large builders from Los Angeles, invited by FHA to this meeting in the FHA offices in Los Angeles, at which a gentleman came out from Washington and with a large blackboard at one end of the room, showed you how you could get into a section 608 project without investing any capital.

Mr. WEBER. That is correct, Senator.

They had a special representative out, the local office called us in.

The CHAIRMAN. The local office of FHA?

Mr. WEBER. Yes.

The CHAIRMAN. What was his name?

Mr. WEBER. Just the office, somebody from the local office. I don't know who it was.

The CHAIRMAN. Was it the middle of 1948?

Mr. WEBER. Yes, sir.

There was a terrific shortage of rental housing in Los Angeles, people paying \$1,000 or \$1,500 under the table to rent an apartment.

The CHAIRMAN. Is that what the FHA Director told you?

Mr. WEBER. Yes, sir—I don't say the Director; I said one of their representatives.

The CHAIRMAN. In other words, there were 15 or 20 builders invited into this room and you had a big blackboard at one end and the man got up—you tell us exactly what happened.

Mr. WEBER. They explained about the housing shortage, and it was up to us builders to help out the situation.

They said, "We will loan you 90 percent of the valuated estimated cost. We will allow you 5 percent for a builders' fee, allow you 5 percent for an architects' fee."

We should wind up the project without having any investment in it. They made a long speech about it and the urgency of it, and the patriotic need of it, and explained the whole thing to us fully.

The CHAIRMAN. Is that why you went into these two projects?

Mr. WEBER. Yes, sir.

The CHAIRMAN. They convinced you that day that you could build these two projects and end up without having any of your own money in it?

Mr. WEBER. Well, at least, we felt they were right, and whether we could end up without any money in it or not, we decided to go ahead.

We had been in business there many, many years, and built thousands of homes under Federal housing before, and since then.

The CHAIRMAN. Of course, what actually happened in your instance: You were not only able to end up without any investment other than the \$1,000 or so, but you made \$387,000 besides?

Mr. WEBER. Yes, sir.

The CHAIRMAN. Out of the mortgage proceeds?

Mr. WEBER. Yes, sir.

The CHAIRMAN. Who was the gentleman that came out from Washington?

Mr. WEBER. I couldn't say as to that. It was more than 5 or 6 years ago and there were many people coming out from Washington at that time.

The CHAIRMAN. Who were some of the other builders?

Mr. WEBER. Mr. Zuckerman and Morris.

The CHAIRMAN. They later built some section 608's?

Mr. WEBER. George Wright.

The CHAIRMAN. Did he later built some section 608's?

Mr. WEBER. Yes, sir. I believe Lloyd Whaley.

The CHAIRMAN. Has he since built some section 608's?

Mr. WEBER. Yes, sir. I believe there was a Robertson of the Republic Construction Co.

The CHAIRMAN. Has he since built some section 608's?

Mr. WEBER. Yes, sir.

The CHAIRMAN. Any others that you can remember?

Mr. WEBER. I can't recall but there were about 20.

The CHAIRMAN. Who was the FHA manager of the local office at the time his happened?

Mr. WEBER. When you say manager, sir—

The CHAIRMAN. Who was the head man at the Los Angeles office?

Mr. WEBER. At that time, and at the present time still is Tommy Thompson.

The CHAIRMAN. He is the Los Angeles FHA Director?

Mr. WEBER. I think they call him the chief underwriter.

The CHAIRMAN. He was there in 1948 when this meeting occurred?

Mr. WEBER. And still is.

The CHAIRMAN. And still is there?

Mr. WEBER. Yes, sir; to the best of my knowledge.

The CHAIRMAN. How do you spell Thompson?

Mr. WEBER. T-h-o-m-p-s-o-n.

The CHAIRMAN. Do you remember the names of any other FHA employees or officials?

Mr. WEBER. Oh, yes; not that they were there at the meeting but the names that are still there now and at that time, Jack Salmon, chief valuator; Ken Mitchell, supervisor of the Land and Subdividing; Roy Maddon, assistant to chief valuator, and I think McGovern, was Director.

The CHAIRMAN. Mr. Weber, you filed an application for Baldwin Gardens. Was that the first application you made for a section 608 project?

Mr. WEBER. It was the first time. In fact, we didn't know how to fill them out and the Federal Housing helped, you might say, their employees or officers helped us to fill it out.

The CHAIRMAN. They helped you fill out this application for a commitment?

Mr. WEBER. Yes, sir.

The CHAIRMAN. Under this item of 5 percent for architects' fees you put in and received credit for \$141,000?

Mr. WEBER. Yes, sir.

The CHAIRMAN. They told you that was perfectly all right?

Mr. WEBER. That was the way they explained it when they first came out and that was the way the application was supposed to be filled in.

The CHAIRMAN. The amount of the mortgage on the Baldwin Gardens was how much?

Mr. WEBER. \$2,888,000, I believe, and 600.

The CHAIRMAN. They allowed you 5 percent?

Mr. WEBER. Yes, sir.

The CHAIRMAN. And then they allowed you 5 percent builders' fee?

Mr. WEBER. Yes, sir.

The CHAIRMAN. That amounted to \$141,000?

Mr. WEBER. Yes, sir.

The CHAIRMAN. So these two items alone amounted to \$282,000?

Mr. WEBER. Yes, sir.

The CHAIRMAN. Yet, you were your own builder?

Mr. WEBER. Yes, sir.

The CHAIRMAN. On this questionnaire that you filled out for the FHA office here in Washington, I note that on the Baldwin Gardens Co. project, you only actually spent \$16,808 on architects' fees and yet FHA allowed you \$141,000.

Mr. WEBER. Well, that is true, sir, but that is an allowance in the breakdown.

The CHAIRMAN. That \$141,000 was the amount used in arriving at the amount of mortgage commitment?

Mr. WEBER. That is right, sir.

The CHAIRMAN. You only spent \$16,808?

Mr. WEBER. Yes, sir.

The CHAIRMAN. So the difference between \$141,000 and \$16,000 would partially account for the mortgaging out, would it not?

Mr. WEBER. Yes, sir, it would.

The CHAIRMAN. Did this gentleman with this big blackboard that was up there actually show you with numbers and calculations and formulas how this could be done?

Mr. WEBER. Yes, sir.

He gave us an example of a project. He took a job for \$1 million and showed where they would loan \$900,000, and we could apply for 5 percent for an architect fee and 5 percent for a builders' fee—

The CHAIRMAN. Which was 10 percent.

Mr. WEBER. Yes, and that should get us out of the total cost.

The CHAIRMAN. If you handled it like that, when you ended up, you would have none of your own money in this project at all.

Mr. WEBER. No, sir.

The CHAIRMAN. At the time, did you realize that you might be able to make \$387,000?

Mr. WEBER. We did not.

In fact, many of the builders that built them under section 608—I mentioned a few names—did not mortgage out, as the term is called now. I know several builders—really they weren't builders. They are promoters, like a lot of promoters around the country got into this so-called section 608 deal and they wound up by having two, three, four hundred thousand of their own money in the deal and still have; but we are experienced builders, have been in the game 34 years, myself personally anyway, and at that time, in 1949, the early part of 1949, or the latter part of 1948 the building costs had taken a nose-dive and we were fortunate in being able to buy well. We employed no purchasing agents. We employed no superintendents. We ran the job ourselves. We paid for our land. We put in a total of a little over \$900,000 in these two projects of our own money and therefore, we came out the way we did.

The CHAIRMAN. Are you familiar with section 608 of the law placing a ceiling on FHA-insured mortgages of 90 percent of the Commissioner's estimated replacement cost?

Mr. WEBER. I wasn't familiar with the law. I know that is what it states.

The CHAIRMAN. Were you amazed with these gentlemen, knowing it was 90 percent of something, Government officials pointing out to you on this blackboard how you could enter into these projects and come out without any invested capital?

Mr. WEBER. It was rather surprising, especially to me. All my building life we have always worried how we were going to dig up the balance of the money that was always needed above a loan in any building or project and it was explained that was an emergency measure that was necessary for the country, the housing situation being as deplorable as it was.

The CHAIRMAN. So you feel you were promoted in this by the local FHA officials in Los Angeles, plus this gentleman who came out from Washington?

Mr. WEBER. Unquestionably.

The CHAIRMAN. Who made the speech, and showed you on the blackboard exactly how you could do it. Is that your testimony?

Mr. WEBER. No question about it.

Frankly, I wish we had never seen them. We were left with almost no money out of the mortgaging-out fees and the income of it. The internal-revenue statutes at the time state, and on advice of our tax consultants that the money we mortgaged out would be a capital gain. We reported it so. The internal revenue investigators 9 or 10 months later came back and investigated our returns and books.

The statement of the internal man was that while he couldn't find anywhere to hang his hat, it was not a capital gain, he was going to turn it in anyway, which he did.

The CHAIRMAN. In other words, you paid normal income tax on it.

Mr. WEBER. Yes, sir; normal income tax up to 70 percent.

The CHAIRMAN. You paid under protest?

Mr. WEBER. Yes; and filed claim for refund.

The CHAIRMAN. You are still arguing with the internal revenue people for a rebate based on a capital-gain basis?

Mr. WEBER. After spending a lot of money for attorneys, our tax attorney's fee alone was \$30,000, and I have here, Senator, if I may present it, an affidavit from our certified public accountant in which it shows that we invested a total of \$950,000 of our own money in these 2 jobs.

Mr. SIMON. By "invested" you mean you loaned it, Mr. Weber?

Mr. WEBER. Stock paid in surplus and loans.

The CHAIRMAN. You loaned the money to this \$1,000 corporation and then when you received the check for the proceeds of the mortgage, you paid it all back; is that right?

Mr. WEBER. Yes, sir, but up to the time we got our money out, which is a year or more in construction, we had \$915,000 of our own money in the 2 deals.

The CHAIRMAN. In other words, I presume at one time you had it all in before you got the check for the proceeds of the mortgage?

Mr. WEBER. Yes, sir.

The CHAIRMAN. Because you really made a sale and you didn't get your money for that sale until you got the check for the proceeds of the mortgage?

Mr. WEBER. That is right.

The CHAIRMAN. All of this nine-hundred-some-thousand dollars was paid back to you?

Mr. WEBER. It was.

The CHAIRMAN. Except the \$1,000, out of the proceeds of the mortgage?

Mr. WEBER. Yes, sir.

What I mean to bring out, sir, is that we are not promoters. We didn't shoestring this deal, no lending institution helped us pay for the land. We paid for it ourselves. We paid our paid-in stock, paid-in surplus, and loaned the money, hundreds of thousands of dollars, making the total of \$915,000. We took no salaries during construction, we never do. We didn't take out any piece of land from the corporation to build a shopping center or anything else. It all went into that deal.

The CHAIRMAN. You built it; you were your own builders, your own architects.

Mr. WEBER. Our own superintendents—

The CHAIRMAN. You loaned the money to this corporation that you formed, the \$1,000 capital and when the project was completed, and you received your check from the proceeds of the FHA-guaranteed mortgage you paid yourself back all that money.

Mr. WEBER. We did.

The CHAIRMAN. And had \$387,000 left over.

Mr. WEBER. We also sold the land to our corporations at our exact cost, and here is a letter in which we state that to the Federal Housing on one of the projects.

The CHAIRMAN. You do not still own the project?

Mr. WEBER. No, sir.

The CHAIRMAN. You sold your one-third interest?

Mr. WEBER. I sold my interest in both of them a year ago.

The CHAIRMAN. You sold your one-third interest in both these projects?

Mr. WEBER. A year ago.

The CHAIRMAN. For how much money?

Mr. WEBER. \$125,000.

The CHAIRMAN. For \$125,000 to your two partners?

Mr. WEBER. Yes, sir.

The CHAIRMAN. I think that is all, unless someone else has some questions.

Mr. WEBER. May I say, Senator, that at this time, I have a piece of land purchased in Fullerton for 560 homes for which we paid \$770,000 for the land. The Federal Housing Authority in Los Angeles and Long Beach have letters to withhold any commitments under title II for any builders that have been named in this section 608 deal. We cannot proceed and we are stuck on the deal, and I would like to have some relief.

I think we have acted in good faith on this all the way through. Any statement that I have made is subject to documentary evidence, and I am asking the Senator and the committee to be relieved of this whole order. We have done nothing we can be ashamed of, nothing wrong, our hands are clean.

I came here as you stated before, of my own free will. I paid my own expenses to come here primarily so we can get relief of this FHA hold order and proceed with these 560 homes that are needed.

The CHAIRMAN. By the way, the \$125,000 that you sold your third interest for: that was profit?

Did you pay income tax on that, or capital gains?

Mr. WEBER. No, sir; I paid capital gain on that and we expect the same thing to happen, they will come back and say it is normal income.

The CHAIRMAN. When was that?

Mr. WEBER. A year ago.

The CHAIRMAN. You sold it a year ago?

Mr. WEBER. A year ago.

The CHAIRMAN. Thank you very much, Mr. Weber. We appreciate your testimony. I presume you will want these documents back. I don't think we need them. You are excused.

Mr. WEBER. Thank you very much for your courtesy.

The CHAIRMAN. Our next witness will be Mr. E. C. O'Driscoll. Is Mr. O'Driscoll here?

Is Mr. Walter McFarland here?

Mr. McFARLAND. Yes.

The CHAIRMAN. Mr. McFarland, will you please be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. McFARLAND. I do.

TESTIMONY OF WALTER P. McFARLAND, ARLINGTON TOWERS,
ARLINGTON, VA., ACCOMPANIED BY MILTON S. GOULD,
COUNSEL

The CHAIRMAN. Thank you, sir.

Please give your full name and address to the reporter. The gentleman with you is your attorney?

Mr. McFARLAND. That is right, sir.

The CHAIRMAN. Give your name, please.

Mr. McFARLAND. My name is Walter P. McFarland.

Mr. SIMON. Your address?

Mr. McFARLAND. 2030 16th Street.

The CHAIRMAN. Your name, please?

Mr. GOULD. Milton S. Gould, of Gallup, Clemenco & Gould, 30 Broad Street, New York.

The CHAIRMAN. Thank you very much, gentlemen.

Mr. SIMON. Mr. McFarland, what is your occupation?

Mr. McFARLAND. Right now it is getting Arlington Towers finished.

Mr. SIMON. Would you give your occupation again, Mr. McFarland?

Mr. McFARLAND. I am president of the Arlington Towers Corp.

Mr. SIMON. How long have you been the president of the Arlington Towers Corp.?

Mr. McFARLAND. Since the corporations were formed.

Mr. SIMON. When was that?

Mr. McFARLAND. It was in 1953.

Mr. SIMON. 1953?

Mr. McFARLAND. That is right.

Mr. SIMON. What was your occupation prior to that time?

Mr. McFARLAND. I was in the restaurant business.

Mr. SIMON. How long had you been in the restaurant business?

Mr. McFARLAND. Twenty years.

Mr. SIMON. Had you ever done any building before you became president of the Arlington Towers Corp.

Mr. McFARLAND. Not as a builder, no, sir.

The CHAIRMAN. Where is your restaurant—here in Washington?

Mr. McFARLAND. Yes, sir.

The CHAIRMAN. Is the restaurant under your own name?

Mr. McFARLAND. No, the corporation.

The CHAIRMAN. What is the name of the corporation?

Mr. McFARLAND. Let me say this: During the past 20 years, many have been in my own name.

The CHAIRMAN. No specific one?

Mr. McFARLAND. No, sir.

The CHAIRMAN. I see.

In other words, you have been in the restaurant business here in Washington, D. C., for over 20 years?

Mr. McFARLAND. Yes, sir, and I have had restaurants in other States.

Mr. SIMON. Mr. McFarland, prior to the time your company was organized, did a Mr. O'Driscoll attempt to build a housing project on the same land?

Mr. McFARLAND. I know that Mr. O'Driscoll had applied.

I don't think he made any attempt to build it.

Mr. SIMON. You bought the land from Mr. O'Driscoll?

Mr. McFARLAND. That is right.

Mr. SIMON. Where is this land located?

Mr. McFARLAND. The land is located in Arlington.

It is bordered on a tract of ground between Arlington Boulevard and Wilson Boulevard and Ridge Road.

Mr. SIMON. Is it roughly south of the Potomac River, between Key Bridge and Memorial Bridge?

Mr. McFARLAND. Yes, almost on the banks of the river.

Mr. SIMON. Do you know what Mr. O'Driscoll paid for this land?

Mr. McFARLAND. I have never had access to those figures, but I understood it to be a combination of costs that was somewhere in the neighborhood of \$2 million.

Mr. SIMON. Do you know what he paid for the land? is my question.

Mr. McFARLAND. Well, that is the best answer I can give you. I understood it to be in the neighborhood of \$2 million which included costs of rezoning and things of that sort.

Mr. SIMON. Didn't you tell us the other day that he paid approximately \$1,300,000 for the land?

Mr. McFARLAND. The amount that I have heard for the ground purchase was somewhere, \$1,300,000, \$1,500,000. I am not certain about that at all, but I do know there were many other costs in connection with the purchase of the ground which I understand brought it up somewhere in the neighborhood of \$2 million.

I might be entirely wrong on that. You will have to get that from him.

Mr. SIMON. You signed a contract with him to buy this land, did you?

Mr. McFARLAND. That is right.

Mr. SIMON. You had a preliminary contract in the summer of 1952, did you?

Mr. McFARLAND. Yes, sir.

Mr. SIMON. And it was finalized into the written contract dated March 30, 1953; is that right?

Mr. McFARLAND. That is right.

Mr. SIMON. Did you agree to—at the time of your contract he still owed \$732,000 on the land; is that right?

Mr. McFARLAND. Yes. That was the balance owed.

Mr. SIMON. Did you agree to pay him \$1,100,000, plus assuming the unpaid balance on the land or a total of \$1,832,000?

Mr. McFARLAND. That is correct.

Mr. SIMON. Was the agreement that you would pay him \$100,000 in cash and the balance was to be a note payable over a period of some 5 years out of the income from the property?

Mr. McFARLAND. Yes. That was the original agreement.

Mr. SIMON. You did finally pay him the \$100,000, didn't you?

Mr. McFARLAND. No, sir; not in just a round figure, \$100,000. We did pay him a substantial amount. I don't know the exact amount.

Mr. SIMON. Was the total amount you paid \$227,000, of which part went to apply on the balance of his indebtedness?

Mr. McFARLAND. That is right, sir.

Mr. SIMON. Where did that \$227,000 come from?

Mr. McFARLAND. That money was borrowed by me at the Hamilton National Bank here in Washington.

Mr. SIMON. And what security or collateral did the Hamilton National Bank get for the loan?

Mr. McFARLAND. That security was a bond.

Mr. SIMON. The U. S. Fidelity & Guarantee?

Mr. McFARLAND. Yes, sir.

Mr. SIMON. Who arranged for the bond with the U. S. Fidelity & Guarantee?

Mr. McFARLAND. I arranged the bond with Mr. McShain—Mr. McShain was the gentleman behind the bond. It was his bonding company.

Mr. SIMON. That is John McShain, the builder?

Mr. McFARLAND. Yes, sir.

Mr. SIMON. He is the one who got the U. S. F. & G. to put up the bond that enabled you to borrow the \$227,000 at the Hamilton Bank?

Mr. McFARLAND. That is right. I might add, Mr. McShain also—his effort there was secured by a ground arrangement, in other words, if we didn't pay it off, just for your own information.

Mr. SIMON. In addition, Mr. O'Driscoll had some plans for this building, did he?

Mr. McFARLAND. Yes, sir.

Mr. SIMON. And was part of the contract that you were to buy the plans for \$220,000?

Mr. McFARLAND. That is right.

Mr. SIMON. And where did the \$220,000 come from that Mr. O'Driscoll got for the plans?

Mr. McFARLAND. Well, part of that came from a bank, which was a private loan, the same as the Hamilton was.

Mr. SIMON. Was that the First National Bank of Arlington?

Mr. McFARLAND. No, sir. That was the Second National Bank of Washington.

Mr. SIMON. What collateral did they get for that loan?

Mr. McFARLAND. Well, their collateral in that case was Mr. McShain.

Mr. SIMON. Mr. McShain guaranteed the note?

Mr. McFARLAND. Yes, sir; that is right.

It was my note endorsed by Mr. McShain.

Mr. SIMON. That is the \$220,000 that went for the architects' plans; is that right?

Mr. McFARLAND. The note was in an amount but I think the total amount borrowed at that source was \$145,000, if I remember correctly.

Mr. SIMON. \$145,000 to the Second National Bank of Washington which Mr. McShain guaranteed?

Mr. McFARLAND. That is right.

Mr. SIMON. Was there \$505,000 borrowed from the First National Bank of Arlington?

Mr. McFARLAND. No, sir. I think what you are getting at, Mr. Simon, is a part of the balance of \$732,000 was held or the amount you speak of, \$505,000 was First National Bank of Alexandria, and they

in turn were sort of escrow agents, I think probably you would refer to them as that, and that represents the balance now.

Mr. SIMON. I have a contract here that says in part, that you signed:

McShain has posted 2 bonds, 1 with the First National Bank of Alexandria, Va., in the amount of \$505,000, and another with the Hamilton National Bank of Washington, D. C., in the amount of \$227,000.

Mr. McFARLAND. That is right.

Mr. SIMON. The \$227,000 is the money that McShain arranged for for the downpayment on the land; is that right?

Mr. McFARLAND. Well, that wasn't a downpayment.

Mr. SIMON. The initial payment?

Mr. McFARLAND. That was a payment, yes, sir.

Mr. SIMON. And the \$505,000 you say, represents the balance that was due on the original people that O'Driscoll bought the land from; is that right?

Mr. McFARLAND. Yes.

Well, the full \$732,000 was the balance, but it was made up of corporations in which there were stockholders owning the ground and the bank was holding it in escrow, that is, the stock, until it was paid for or something like that.

Mr. SIMON. Mr. McFarland, what is your estimate of total cost of this project?

Mr. McFARLAND. Well, as of now, the cost is in excess of \$22 million, including the ground.

Mr. SIMON. That is \$18 million to Mr. McShain for building the building, is that right?

Mr. McFARLAND. That is right, sir.

Mr. SIMON. And roughly \$2 million for the ground, is that right?

Mr. McFARLAND. One million eight.

Mr. SIMON. One million eight for the ground.

Mr. McFARLAND. Yes.

Mr. SIMON. And about a million dollars of financing charges, is that right?

Mr. McFARLAND. Well, it depends on what you include in financing charges. It may be right if you are including such things as interest and the mortgage discount.

Mr. SIMON. Yes.

Mr. McFARLAND. Yes, it would be well in excess.

Mr. SIMON. How much over a million dollars?

Mr. McFARLAND. Would you like me to give you the figures?

Mr. SIMON. Yes.

Mr. McFARLAND. I will read them right off to you, sir.

Mr. SIMON. Just give me the total of the financing charges.

Mr. McFARLAND. I do not have them, I do not have them broken down quite that way. There is only about—the total costs here are only maybe eight items.

Mr. SIMON. Would you just give me the figures roughly? It doesn't have to be precisely but roughly what the financing charges are.

Mr. McFARLAND. Let me give it to you in two figures, then. Say, \$775,000 and \$576,000.

Mr. SIMON. That is about one million three?

Mr. McFARLAND. Sir?

Mr. SIMON. About \$1,300,000?

Mr. McFARLAND. I haven't done the arithmetic on it. I don't have a pencil. Let's assume that is right.

Mr. SIMON. About \$1,400,000, excuse me. That totals \$22,200,000 and I take it the other \$600,000 are such things as taxes and FHA filing fees, etc?

Mr. McFARLAND. Yes, over \$200,000 to FHA, fees and title and recording and items of that kind.

Mr. SIMON. The total is approximately \$22 million.

Mr. McFARLAND. 22 million, seventy, but it does not represent all the cost. We still have a considerable cost in connection with the project.

Mr. SIMON. So the total cost would be considerably in excess of \$22 million?

Mr. McFARLAND. That is right.

Mr. SIMON. Now there are four corporations, Arlington Towers, is that right?

Mr. McFARLAND. There are four——

Mr. SIMON. There is a first Arlington Towers——

Mr. McFARLAND. First, Second, Third, and Fourth and also a land corporation.

Mr. SIMON. The First, Second, Third, and Fourth Corps. are each to own one of these projects, is that right?

Mr. McFARLAND. That is right.

Mr. SIMON. Are they all wholly owned subsidiaries of the land corporation?

Mr. McFARLAND. Yes, sir.

Mr. SIMON. The land corporation is the parent corporation?

Mr. McFARLAND. That is right.

Mr. SIMON. What is the capital stock of the land corporation?

Mr. McFARLAND. Well, each of the corporations were the same, of \$2,000.

Mr. SIMON. Each corporation had a capital stock of \$2,000?

Mr. McFARLAND. That is right. You would have a total of \$8,000—no, it would be \$10,000, including the land corporation.

Mr. SIMON. Except that the land corporation owns all the stock in the other four?

Mr. McFARLAND. That is right.

Mr. SIMON. So that the individuals own stock only in the land corporation?

Mr. McFARLAND. That is right.

Mr. SIMON. And the capital stock is \$2,000?

Mr. McFARLAND. Yes.

Mr. SIMON. What——

The CHAIRMAN. Just \$2,000?

Mr. McFARLAND. How is that, sir?

The CHAIRMAN. You mean \$2,000 is the capital stock that will eventually own this \$22 million worth of property?

Mr. McFARLAND. In the one corporation, yes. There is \$2,000 in each corporation.

The CHAIRMAN. But the land company owns the other four corporations; is that right?

Mr. McFARLAND. That is correct.

The CHAIRMAN. And there is \$2,000 in the land company?

Mr. McFARLAND. Yes.

The CHAIRMAN. And \$2,000 in each of the four corporations?

Mr. McFARLAND. That is right.

The CHAIRMAN. So that is \$10,000?

Mr. McFARLAND. Yes, sir.

The CHAIRMAN. In other words, \$10,000 worth of invested capital will eventually own this \$22 million project?

Mr. McFARLAND. That is not right, sir. There is a lot more invested capital than this book entry of the stock.

The CHAIRMAN. We will get to that later.

Mr. SIMON. There are three stockholders; is that right?

Mr. McFARLAND. Yes.

Mr. SIMON. You own 50 percent?

Mr. McFARLAND. That is correct.

Mr. SIMON. And Mr. Loughran owns 25 percent?

Mr. McFARLAND. Mr. Loughran and Johnson each own 25 percent.

Mr. SIMON. What are their first names?

Mr. McFARLAND. Mr. Loughran and Edward Johnson.

Mr. SIMON. Are they local people?

Mr. McFARLAND. Yes.

Mr. SIMON. I take it that you stockholders have advanced funds to these corporations in addition to the \$2,000 of stock in the land corporation, is that right?

Mr. McFARLAND. That is right, sir.

Mr. SIMON. What is the maximum amount of money which the three stockholders have advanced to the corporation?

Mr. McFARLAND. Well, I would have to pause a moment before I could give you those totals.

Mr. SIMON. Let me ask you whether this is your testimony in executive session:

Mr. SIMON. Now the \$35,000, where did that come from?

I'm sorry. You testified 35,000 was put in and then I said:

Mr. SIMON. Now the \$35,000, where did that come from?"

Mr. McFARLAND. That came from my pocket.

Mr. SIMON. Your own personal funds?

Mr. McFARLAND. Yes.

Mr. SIMON. So that in this venture you have \$35,000 of your own personal money, is that right?

Mr. McFARLAND. That is right.

Mr. SIMON. How much of Mr. Johnson's personal funds are in the venture?

Mr. McFARLAND. Well, it would be very small, not more than the amount we have put for the stock setup, because I have carried most of this out-of-pocket expense, the securing of the loans and that sort of thing on my \$35,000.

And then skipping over——

Mr. McFARLAND. Mr. Simon, I don't want to interrupt you, but you did not go back far enough when you started to read. You should have read the sentences preceding where you started——

Mr. SIMON. On page 1541?

Mr. McFARLAND. I do not know the page but I do know when the \$35,000 was arrived at you had asked me what amount was put in aside from the money we borrowed privately of our own.

Mr. SIMON. You paid—you had put in \$250,000, 227,000 of which was the money which you borrowed on Mr. McShain's guaranty at the Hamilton National Bank?

Mr. McFARLAND. Mr. McShain guaranteed it but it was our note strictly, the same as at the other bank.

Mr. SIMON. Let me ask this, then: excluding the \$227,000, which you borrowed from the Hamilton Bank on Mr. McShain's guaranty through the U. S. F. & G. does \$35,000 represent the total that you and the other 2 stockholders had in these corporations?

Mr. McFARLAND. No, sir.

Mr. SIMON. Was that what you told us at the executive session on July 8?

Mr. McFARLAND. I don't think that I included the amount at Second National in that.

The CHAIRMAN. That was borrowed money, was it not?

Mr. McFARLAND. Yes. That is what we are talking about.

The CHAIRMAN. We are not talking about borrowed money. We want to know how much capital actually you invested that you did not borrow.

Mr. SIMON. Excluding the loans Mr. McShain guaranteed.

Mr. McFARLAND. You are assuming the money we borrowed is not capital invested? Is that the point?

The CHAIRMAN. If McShain guaranteed it.

Mr. McFARLAND. Sir?

Mr. SIMON. Excluding for the moment, Mr. McFarland, the loans that Mr. McShain guaranteed, is \$35,000 the total amount of money that you and your other stockholders have in these projects?

Mr. McFARLAND. I would like to call your attention to this, Mr. Simon. That we have borrowed quite a considerable amount of money from Chemical also.

Mr. SIMON. But McShain guaranteed that also?

Mr. McFARLAND. In part only.

Mr. SIMON. Excluding the loans that Mr. McShain has guaranteed, is \$35,000 the total of money that you and your other stockholders have in this project?

Mr. McFARLAND. That is the out-of-pocket money before we borrowed money from a private source, yes.

Mr. SIMON. Is that the total amount of money that you and the other stockholders have in this project other than the moneys McShain guaranteed the banks on?

Mr. McFARLAND. I do not know that Mr. McShain has borrowed all the money—I mean has guaranteed everything the sponsors have borrowed on this, whether private or not. I would like to check that. I do not think he has in any sense of the word.

Mr. SIMON. Then with the possible doubt as to whether Mr. McShain has guaranteed them all, and we will come back to that later, \$35,000 is the maximum amount of money that the stockholders have invested here, is that right?

Mr. McFARLAND. No, sir. I cannot agree with you. I mean when you say an investment, Mr. Simon, we are far apart in our thinking on investment at the moment.

Mr. SIMON. Excluding—and get this clear now—excluding the moneys that you borrowed from the banks, and we will talk about who guaranteed those in a minute—excluding those bank loans, is \$35,000 the maximum amount of money that you and the other two stockholders have put into these corporations?

• Mr. McFARLAND. Yes, excluding the money we have borrowed, of a private nature, above the amount of the mortgage, that is the initial amount that is on the books.

Mr. SIMON. You filed applications with the FHA for loans on these projects?

Mr. McFARLAND. Yes.

Mr. SIMON. How many applications did you file?

Mr. McFARLAND. Well, I would assume four, Mr. Simon. I don't know.

Mr. SIMON. What I had in mind—

Mr. McFARLAND. There may have been some errors or something in one. It may have been necessary to retype something. I don't know about that but fundamentally there were four applications.

Mr. SIMON. You mean one for each section?

Mr. McFARLAND. That is right.

Mr. SIMON. Didn't you file an amended application for each section, too?

Mr. McFARLAND. An amended application?

Mr. SIMON. Yes.

Mr. McFARLAND. I am not—probably we did. I just could not say, Mr. Simon, I wouldn't know the reason for it at the moment.

Mr. SIMON. I believe you filed a total of four applications, originally, and then here were amended applications filed on each of these. Do you know about that?

Mr. McFARLAND. Well, I probably would if I could go into that a moment. The forms were so voluminous it is a little difficult to recall all of the applications.

Mr. SIMON. I show you the two documents here. One has stamped "Refunded" on it, that are both FHA applications, for section 4 and ask you whether those are the original and amended applications that you filed on section 4; that is, that would be Fourth Arlington Towers Corp.

Mr. McFARLAND. Let me say this, Mr. Simon. I haven't had a chance at this moment to look at both but I see one here is dated March 1, 1949, which was long—3 years before we entered this thing so I know—

Mr. SIMON. That would be the one Mr. Driscoll filed.

Mr. McFARLAND. This must have been the section 608 you referred to.

Mr. SIMON. Before you took over?

Mr. McFARLAND. Yes.

Mr. SIMON. And the 1953 application is yours, is that right?

Mr. McFARLAND. Yes.

Mr. SIMON. There was one application just like that for each corporation, is that right?

Mr. McFARLAND. I am sure that is the way it would be, that is right.

Mr. SIMON. What is the total amount of the commitments you received from FHA on these four buildings?

Mr. McFARLAND. The total amount was \$16,504,000.

Mr. SIMON. You had negotiations with the Chemical Bank about the construction loan and also a loan for over and above money?

Mr. McFARLAND. Yes.

Mr. SIMON. What was the original arrangement which you made with the Chemical Bank?

Mr. McFARLAND. The original arrangement was to secure a loan, which is referred to as an unsecured loan, technically, insofar as FHA is concerned, and for credit up to \$4 million.

Mr. SIMON. Let me go back a minute. There are 4 contracts between these 4 corporations and John McShain, Inc., to build these 4 buildings, is that right?

Mr. McFARLAND. Yes.

Mr. SIMON. And what do those four contracts total?

Mr. McFARLAND. Fifteen million seven hundred odd thousand.

Mr. SIMON. Under those four contracts John McShain, Inc., agreed to build these four buildings for \$600,000 less than the mortgage, is that right?

Mr. McFARLAND. Under those four, yes. The land corporation makes up the difference.

Mr. SIMON. Under these 4 contracts McShain agreed to build the buildings for 800,000 less than the mortgage, is that right?

Mr. McFARLAND. That sounds right. I believe the arithmetic is correct.

Mr. SIMON. The buildings are being built on a leasehold; is that right?

Mr. McFARLAND. That is right.

Mr. SIMON. And the parent corporation, the land corporation, owns the land and they leased it to these corporations for 99 years?

Mr. McFARLAND. That is right.

Mr. SIMON. At the same time, or about the same time that Mr. McShain agreed to build these 4 buildings, with the 4 corporations, for \$15,700,000, was there a separate agreement fixing a different price?

Mr. McFARLAND. With the land corporation, which is referred to as a master contract; yes.

Mr. SIMON. The master contract, with the land corporation, said the total price would be \$18 million; is that right?

Mr. McFARLAND. That is right.

Mr. SIMON. And that was \$2.3 million more than the contract with the building corporations?

Mr. McFARLAND. That sounds right. I haven't done that arithmetic.

Mr. SIMON. Before you got your closing with FHA you had to submit your construction contracts; didn't you?

Mr. McFARLAND. Well, whether it was before or simultaneously I am not certain, but it was about the same time, yes.

Mr. SIMON. You did submit to FHA copies of these four contracts with McShain totaling \$15,700,000, is that right?

Mr. McFARLAND. Yes.

Mr. SIMON. Was FHA ever told about this fifth agreement that said the price would be \$18 million?

Mr. McFARLAND. I cannot recall that they were.

There is certainly no secret about it. I couldn't answer the question, Mr. Simon.

Mr. SIMON. As far as you know, was FHA ever advised that there was a separate agreement fixing the price at \$18 million.

Mr. McFARLAND. Well, I am sure they must have known it although I cannot recall any specific time or place. I know we never wrote them about it. I cannot say we didn't. It may be we have. FHA would have the answer to that.

Mr. SIMON. Do you know whether FHA ever knew about it?

Mr. McFARLAND. I could not say that they did, no, sir.

Mr. SIMON. Did you ever tell them about it? Either orally or in writing?

Mr. McFARLAND. Well, I don't know, Mr. Simon, whether I have mentioned specific amounts or whether I may have said "Our contracts are a lot more than those indicated on these forms." I do know there was some discussion about it but I just cannot be specific enough and right enough to answer you on that one point. I just don't recall discussing it with any one individual but I know generally, when the contracts were first submitted there, there was some discussion about the contracts being lower than the mortgage and I know at that time there was something discussed about it and I am sure all understood that our costs were far in excess of those four contracts.

Mr. SIMON. Did you ever submit a copy of the \$18 million contract to FHA?

Mr. McFARLAND. Not that I know of.

Mr. SIMON. Did you ever write them a letter telling them there was an \$18 million price on the buildings?

Mr. McFARLAND. I couldn't remember. You would have to ask them. It is possible, but I don't recall it. If they asked for it they would have had it. I know that.

Mr. SIMON. Of course they couldn't ask for something they didn't know existed, could they?

Mr. McFARLAND. Well, I don't know but I am sure that some of them at least understood that that was not our cost in connection with this project.

Mr. SIMON. Mr. McFarland, if you were going to pay McShain \$18 million to build these buildings, what was the purpose of the 4 contracts that totaled only \$15,700,000?

Mr. McFARLAND. Well, that was arrived at through our arrangements with the Chemical Bank & Trust Co., who wanted a sound loan and deducted certain amounts from the insured mortgage so it is paid off and that is it.

Mr. SIMON. Was that because the Chemical Bank wanted the amount that McShain was entitled to receive out of the mortgage money, to be less than the FHA commitment?

Mr. McFARLAND. That was the reason. They guided these four contracts that you referred to to a point where their estimated cost of interest and other expenses in connection would make their loan a very sound one and it would be repaid.

Mr. SIMON. So the result of what you did was that McShain was only entitled to \$15,700,000 out of the mortgage money, in spite of the fact that the project was \$18 million; is that right?

Mr. McFARLAND. That is correct.

Mr. SIMON. Was the reason because the Chemical Bank wanted to be sure that the mortgage money was enough to complete the building and anything else that was owing to McShain would not be subject to payment out of the mortgage money?

Mr. McFARLAND. That sounds reasonable. I think that would be the fundamental reason why it was deducted; yes, sir.

Mr. SIMON. Is that the reason?

Mr. McFARLAND. That is in my opinion; yes.

Mr. SIMON. Did the Chemical Bank know the total price was \$18 million?

Mr. McFARLAND. Well, I am sure they did, although, again, if you asked me if I have written letters or copies of contracts—I really do not know just what Chemical has in the way of copies, and so forth. I am sure they know about it.

Mr. SIMON. In any event, it was the Chemical who suggested the two sets of contracts in order that McShain would get out of the mortgage money an amount less than the mortgage; is that right?

Mr. McFARLAND. No, Chemical didn't suggest two sets of contracts. Chemical, I don't suppose, are interested in our master contract, but they were interested in once applying to FHA and those amounts of insured funds—that part of the loan they were interested in but they never asked us to make any additional contracts.

That was arrangements of our own.

Mr. SIMON. Now, in addition, you got a \$4 million line of credit from the Chemical, theoretically unsecured; is that right?

Mr. McFARLAND. We have a \$4 million line of credit which they gave us a commitment on, yes.

Mr. SIMON. And that was guaranteed by John McShain personally as well as John McShain, Inc.; is that right?

Mr. McFARLAND. As well as the other sponsors, too, yes, and also is further guaranteed by an investment by the land corporation of approximately \$1,200,000, which was assigned to Chemical or some such arrangement.

Mr. SIMON. The \$4 million loan which Chemical Bank made was for the purpose of permitting these corporations to escrow the funds that FHA required, representing the difference between the mortgage money and the cost of construction; is that right?

Mr. McFARLAND. Yes. They did not loan \$4 million of credits but they agreed to loan up to that.

Mr. SIMON. They actually loaned about three million two; is that right?

Mr. McFARLAND. Yes. I would say that is about right.

Mr. SIMON. That was put up with FHA or put up under FHA directions as the so-called first money or front money.

Mr. McFARLAND. That is right. The money is advanced before any—that is the over and above money, as commonly referred to, and that money must be advanced before any of the insured funds.

Mr. SIMON. Then when the building is completed, assuming that McShain performs his contracts and builds these buildings for \$15,700,000—

Mr. McFARLAND. He always has, Mr. Simon.

Mr. SIMON. Yes; then the Chemical Bank will be paid not only the so-called unsecured loan, but also the construction loans out of the other FHA mortgage of \$16.5 million; is that right?

Mr. McFARLAND. Mr. Simon, I lost you there for a moment. I would like to hear you ask that question again.

Mr. SIMON. If we assume that Mr. McShain will perform his contract, he will build these buildings for \$15.7 million; is that right?

Mr. McFARLAND. Insofar as the four contracts.

Mr. SIMON. Yes.

Mr. McFARLAND. Yes, sir.

Mr. SIMON. So far as the Chemical Bank is concerned?

Mr. McFARLAND. Yes.

Mr. SIMON. And the Chemical Bank will then be repaid not only 3.2 million loan, but also anything they have advanced on the construction loan out of the \$16½ million FHA-insured loan; is that right?

Mr. McFARLAND. No, sir. You are overlooking the \$1,200,000 that is coming in there, in addition to the insured funds from the land corporation.

Mr. SIMON. Is my statement correct with that exception?

Mr. McFARLAND. I would say so, generally, yes.

Mr. SIMON. Now the one million two you are speaking about, you bought this land from O'Driscoll for \$1,832,000; is that right?

Mr. McFARLAND. That is right.

Mr. SIMON. Then you leased it to the four corporations; is that right?

Mr. McFARLAND. Certainly.

Mr. SIMON. And what valuation did FHA put on the land?

Mr. McFARLAND. I would have to check our mortgages. I was acquainted with what the valuation was under section 608, all the land, seeing a couple of those project analyses, but at the moment the final valuation on our ground escapes me, I think you have copies of it there, Mr. Simon.

Mr. SIMON. Do you know whether the mortgage is an 80-percent mortgage?

Mr. McFARLAND. I think that is right, yes.

Mr. SIMON. Is your mortgage with Teachers Insurance \$2,115,620?

Mr. McFARLAND. I thought it was one million nine, Mr. Simon, subject to correction if I am wrong. If you will hold just a moment—

Mr. SIMON. Yes.

Mr. McFARLAND. One million nine is what I have.

Mr. SIMON. One million nine is the amount of the mortgage. That would indicate an FHA appraisal of about \$2¼ million?

Mr. McFARLAND. That is about right, yes.

Mr. SIMON. The Chemical Bank commitment to you was conditioned upon your getting an FHA commitment; is that right?

Mr. McFARLAND. I don't recall anything like that in our commitment.

Mr. SIMON. Did the Chemical Bank ever notify you of its commitment? Did they ever write you a letter or anything?

Mr. McFARLAND. Yes. They gave us a commitment on it.

Mr. SIMON. Did that commitment say it was subject to the FHA approving this loan?

Mr. McFARLAND. I don't believe I have a copy of it here. It is possible it might but I don't recall it that way. I just remember saying this \$4 million credit available to the sponsors, exceed \$25 million. That is on file with the bank.

Mr. SIMON. Did your contract with O'Driscoll provide that it was subject to your getting an FHA commitment?

Mr. McFARLAND. Yes. I am sure that was our understanding and I am sure it is recited somewhere.

Mr. SIMON. You weren't interested in buying it unless you got the FHA commitment; is that right?

Mr. McFARLAND. No, sir; we were not buying ground for speculation.

Mr. SIMON. Now I have here a photostat copy of a letter from you to the district director of FHA office, dated December 21, 1953, which says in part:

The Arlington Land Corp. has a commitment from Teachers Insurance & Annuity Association in the amount of \$2,115,000, of which \$732,000 will be paid for the balance in full of the land in connection with the above project.

Is that wrong?

Mr. McFARLAND. I would think it would be right, at that time, but I think what has happened, Mr. Simon, in the confusion here in our figures, you are using \$2,100,000 and I am using one million nine, when—and that is the total we are talking of now—we are talking of the total of the tract of all 4 corporations, but I think what happened is, FHA, due to some previous dedications of roads and one thing and another to the county of Arlington or State, when we got into one of last closings, reduced the valuation some \$200,000 over the figure that was apparent at that time, and which was probably the difference here in the 2 figures we are using.

Mr. SIMON. I show you a letter to me dated July 13, 1954, from the Chemical Bank, which purports to advise us of the minutes of their committee meeting approving your loan and which says it was conditioned upon a number of things and I ask you whether that is the Chemical Bank commitment terms.

Mr. McFARLAND. I would assume, Mr. Simon, that this reflects generally that this is in no way connected with the commitment we received which is much briefer and carries no provision of being based on FHA. Maybe they were basing it themselves but there is nothing contained in our commitment along that line.

Mr. SIMON. Mr. McFarland, you don't think they were going to loan all this money to you if you didn't get an FHA committment, do you?

Mr. McFARLAND. They certainly have at times in the past. FHA is no bargain in our case.

The CHAIRMAN. Is what?

Mr. McFARLAND. Bargain, sir.

The CHAIRMAN. I think you will find that is true.

Mr. McFARLAND. We paid \$500,000 in mortgage discounts in spite of FHA insurance.

The CHAIRMAN. I think before you are through with this project you will find that is a true statement.

Mr. McFARLAND. We know it now, sir.

Mr. SIMON. The Chemical Bank made their commitment in January of 1953; isn't that right?

Mr. McFARLAND. That sounds right, yes.

Mr. SIMON. Your project was held up for almost a year, at least 10 months, after you had the Chemical Bank commitment?

Mr. McFARLAND. Yes, sir.

Mr. SIMON. Until you got the FHA commitment; isn't that right?

Mr. McFARLAND. Yes.

Mr. SIMON. And even though you had the Chemical Bank commitment in January you couldn't go ahead until November because it wasn't until then that you got the FHA commitment; is that right?

Mr. McFARLAND. We got our FHA commitments in May of 1953, not in November, Mr. Simon.

Mr. SIMON. Wasn't there a lot of discussion between May and November as to whether FHA would go through with this commitment?

Mr. McFARLAND. There was only one meeting that I can recall, when Mr. Guy Hollyday, the new Commissioner at that time, wanted to review these commitments, and so forth, and there was a general meeting at that time. That is the only one I know of.

Mr. SIMON. When did you start construction?

Mr. McFARLAND. We started construction in January of this year.

Mr. SIMON. In January of this year, although you had the Chemical Bank loan in January of 1953?

Mr. McFARLAND. That is right, sir.

Mr. SIMON. Don't you know that between May and November of 1953, there were many meetings at FHA about this project?

Mr. McFARLAND. Many what, sir?

Mr. SIMON. Many meetings?

Mr. McFARLAND. Between whom, Mr. Simon?

Mr. SIMON. Well, don't you know that between May and November of 1953 the staff people at FHA were unwilling to approve the project because of your financial statement?

Mr. McFARLAND. No, sir.

Mr. SIMON. You do not know that Mr. Powell overruled the staff on that?

Mr. McFARLAND. No, sir.

Mr. SIMON. Now going to your application, the application for an FHA commitment that you have in front of you, I refer you to schedule A, on page 2. It says "Sources of equity." Do you find that?

Mr. McFARLAND. Yes, sir.

Mr. SIMON. There are three sources of equity listed. One that is cash for Arlington Towers Corp., of a little under \$1 million, is that right? I have before me the application for section 3—

Mr. McFARLAND. You mean a little over \$1 million?

Mr. SIMON. I have in front of me the application for section 3 which shows \$947,000.

Mr. McFARLAND. I am looking at the figure you refer to, yes.

Mr. SIMON. About \$1 million.

Mr. McFARLAND. Yes. This is one million one, yes.

Mr. SIMON. What section do you have there? What section of Arlington Towers?

Mr. McFARLAND. Section 4.

Mr. SIMON. Section 4. Now that \$1 million of equity, and there was a similar figure in each of the four sections; is that right?

Mr. McFARLAND. Yes.

Mr. SIMON. Does that represent the Chemical Bank, so-called, your secured loan, \$4 million?

Mr. McFARLAND. Well, Mr. Simon, I have told you before, this particular application, I am just not an authority on it and I never associated these figures.

Mr. SIMON. I refer you to the last page and ask you if that is your signature.

Mr. GOULD. Yes.

Mr. McFARLAND. Yes.

The CHAIRMAN. Are you the president of that corporation?

Mr. McFARLAND. Yes.

The CHAIRMAN. Are you the general manager?

Mr. McFARLAND. You might say that.

The CHAIRMAN. Then you ought to know.

Mr. McFARLAND. These applications—I don't know just—I should know; would you mind explaining what I should know about this?

Mr. SIMON. You have an item of cash in each of the four applications of roughly \$1 million, is that right?

Mr. McFARLAND. Yes.

Mr. SIMON. That is a total of \$4 million?

Mr. McFARLAND. Three million one, we are talking about the over and above.

Mr. SIMON. Is the cash that is referred to in these applications, which totals something under \$4 million, the so-called unsecured loan money of the Chemical Bank?

Mr. McFARLAND. Well, I would have to reconcile these four figures with that to make sure that the cash figures as identified on this application is what we are talking about. I have never analyzed this particular sheet.

The CHAIRMAN. Maybe I can help out. If the \$4 million, approximately \$4 million, represented in these 4 projects in these 4 applications did not come from the Chemical National Bank, from what source did it come from?

Mr. McFARLAND. That loan we borrowed from the Chemical Bank & Trust Co.

The CHAIRMAN. Then the \$4 million you are talking about in these 4 applications is the money that you borrowed from the Chemical National Bank; is that right?

Mr. McFARLAND. If we are talking about three million one, then I think we would say yes, we are talking about the same thing.

The CHAIRMAN. Taking the total of the 4 amounts put in there you tell us and the gentleman signing the 4 applications tell us, where you got the \$4 million.

Mr. McFARLAND. What I am trying to say, Senator, in these 4 applications, in the same insertion point, total \$3,100,000; if so, that is right.

Mr. SIMON. Let us try it differently: will you tell us by looking at the application for section 1 how much cash equity it said was going into the corporation?

Mr. McFARLAND. \$871,205.

Mr. SIMON. In section 2 how much did the application say was going in, in cash?

Mr. McFARLAND. One million one hundred and five.

The CHAIRMAN. Now section 3.

Mr. McFARLAND. There seems to be some little typographical error. On front it says one thing and on the line it says something else. It identifies 3 on the front and 1 on the line.

Mr. GOULD. \$871,000 is on the first one.

The CHAIRMAN. That is close enough.

Mr. McFARLAND. This is one figure you don't have, \$947,648.

The CHAIRMAN. That is the third one. What is the fourth one?

Mr. McFARLAND. \$1,103,090.

The CHAIRMAN. If you total those four it is approximately \$4 million?

Mr. McFARLAND. It is? I haven't a pencil and paper.

Mr. SIMON. \$4,026,000, if you leave out the hundreds.

The CHAIRMAN. Where did you get the \$4 million?

Mr. McFARLAND. I cannot associate anything, Senator, with the four-million-odd dollars on these applications. Our over and above requirements was \$3,100,000.

The CHAIRMAN. What did you mean when you put \$4 million in the 4 applications?

Answer that.

Mr. McFARLAND. I am wondering if these applications are the final ones we handed in to FHA or whether there were some preliminary ones after FHA themselves had made many changes.

The CHAIRMAN. See if it has your signature on each of them.

Mr. McFARLAND. There is no question about them being our applications, Senator.

Mr. SIMON. Didn't you tell us a few minutes ago you only filed one and the earlier one was the O'Driscoll group's application?

Mr. McFARLAND. I told you I assumed he only filed one, but I know we had three-million-odd dollars and we are getting figures totaling \$4 million.

Mr. SIMON. What is the date of those applications, Mr. McFarland?

Mr. McFARLAND. The one that I have here, Mr. Simon, is dated February 6, 1953, and it has Mr. Howe's signature. I don't know whether these are some sort of preliminary applications or just—

Mr. SIMON. Let me ask you this: on February 6, 1953, when you signed those 4 applications, which were filed with FHA, did you contemplate any other source of that \$4,026,000, other than the Chemical Bank loans?

Mr. McFARLAND. No.

Mr. SIMON. Let's go to the architect's fee shown in those four applications, under equity.

Mr. McFARLAND. There is some confusion on these applications. Some submitted here don't seem to be the same as the others. That is confusing.

Mr. SIMON. They are different ones.

Mr. McFARLAND. They don't seem to be the same form. Some of these are signed by O'Driscoll, some by Housing and we found one signed by me.

Mr. SIMON. Only the one signed by you?

The CHAIRMAN. You tell us show much you put in for equity capital in the four applications that you signed. You did sign four applications?

Mr. McFARLAND. Three million one hundred odd thousand. Let me check that, Senator.

Mr. SIMON. That \$3,100,000 was to come from the Chemical Bank, is that right?

Mr. McFARLAND. Yes.

Mr. SIMON. Will you pick one of those that is signed by you, one of the applications that is signed by you? Turn to the equity section on page 2 and it says that in addition to cash that is going in as equity there is going to be a builders fee and architect's fee go in as equity, is that right?

Mr. McFARLAND. That is what it says; yes.

The CHAIRMAN. How much does it say is going in as an architect's fee under equity?

Mr. McFARLAND. You mean where it states "Other equity"?

Mr. SIMON. Yes. What is the dollar amount?

Mr. McFARLAND. \$95,124.

Mr. SIMON. Does it give the name of the architect?

Mr. McFARLAND. Yes, sir. It says "Associated Architects and Engineers."

Mr. SIMON. They were the architects too, weren't they?

Mr. McFARLAND. Yes.

Mr. SIMON. Did each of the four applications have a comparable figure for an architect's fee as equity?

Mr. McFARLAND. Yes.

Mr. SIMON. That says that the architect is going to get roughly \$95,000 in each section in stock for his architect's fee, is that right?

Mr. McFARLAND. I don't read anything like that, Mr. Simon. Maybe that is a correct interpretation but it is certainly nothing I know of. There is no equity stock for the architects.

Mr. SIMON. Isn't the equity stock interest?

Mr. McFARLAND. I do not know just that that would indicate that, Mr. Simon. That is something I am not an authority on. I wouldn't say it necessarily indicates that.

Mr. SIMON. In any event, the application says that the architect is going to get roughly \$95,000 in each building, in equity, is that right?

Mr. McFARLAND. I haven't looked at the other buildings; it say \$95,000 in this one; yes.

Mr. SIMON. The others are roughly the same, are they?

Mr. McFARLAND. Let's assume that.

Mr. SIMON. It says the builder is going to have how much in equity there?

Mr. McFARLAND. Well, it say the builder will have \$233,451, but I am certain—I don't know whether this is the preliminary application or not but I am sure we never asked for a builder's fee. If we did, here, we didn't in closing it out, I know.

Mr. SIMON. At any rate, whatever the architect was to get, he actually received in cash, didn't he?

Mr. McFARLAND. Whatever he was to get—I am going to repeat your question, whatever he was to get he actually received in cash? You are asking if the architect has received the amount we were to pay him?

Mr. SIMON. He either has been paid or will be paid in cash the amount of his fee?

Mr. McFARLAND. He has been paid in cash.

Mr. SIMON. He has already been paid in cash?

Mr. McFARLAND. A large sum, we are still paying, yes.

Mr. SIMON. The builder's fee goes to McShain and that is to be paid in cash, isn't it?

Mr. McFARLAND. I cannot associate any fee on this application, our arrangement with Mr. McShain. I would like to state at this time that this is our first and only experience with FHA and the architects for us filled out these applications. As far as these various

charts and tabular sheets here, I have not been acquainted with them and I did check the amount of mortgage we asked for, and so forth. I assume we did not include in our arrangements with FHA anything like these figures.

Mr. SIMON. Mr. Chairman, could we suspend with this witness for a few minutes and hear Mr. Barringer?

The CHAIRMAN. Yes; I have been reading in the newspapers that this is the largest project of its kind in the world. Is that true?

Mr. McFARLAND. I don't know, Senator.

The CHAIRMAN. I read in the Washington News last night that this was the largest project of its kind in the world. How many units are there in it?

Mr. McFARLAND. 1,679.

The CHAIRMAN. How many apartment buildings?

Mr. McFARLAND. There are four apartment buildings.

The CHAIRMAN. How many apartments in each building?

Mr. McFARLAND. In each building?

The CHAIRMAN. How many units will there be?

Mr. McFARLAND. 1,679 apartments.

The CHAIRMAN. 1,679 apartments?

Mr. McFARLAND. Yes, sir.

Mr. SIMON. Is it an estimated \$4,000 per unit?

Mr. McFARLAND. That figure is probably right; yes.

The CHAIRMAN. This is your first experience in the building business?

Mr. McFARLAND. I am not in the building business, Senator.

The CHAIRMAN. Your first experience with FHA?

Mr. McFARLAND. Mr. McShain is building it.

The CHAIRMAN. Your first experience with FHA?

Mr. McFARLAND. Yes.

The CHAIRMAN. Will you gentlemen sit around over here?

Mr. Barringer, will you please come forward? Will you please be sworn? Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF THOMAS C. BARRINGER, DIRECTOR, FEDERAL HOUSING ADMINISTRATION, DISTRICT OF COLUMBIA

Mr. BARRINGER. I do.

The CHAIRMAN. Thank you, sir. Will you give your name to the reporter?

Mr. BARRINGER. Thomas C. Barringer.

The CHAIRMAN. What is your official position?

Mr. BARRINGER. Director, FHA, District of Columbia Insuring Office.

Mr. SIMON. How long have you been with FHA, Mr. Barringer?

Mr. BARRINGER. Since 1934.

Mr. SIMON. How long have you been director of the Washington office?

Mr. BARRINGER. Since June 12, 1949.

Mr. SIMON. Are you personally acquainted with the Arlington Towers project that we have been discussing here this morning?

Mr. BARRINGER. I am.

Mr. SIMON. As director of the District office, you had supervision over that project?

Mr. BARRINGER. The processing of the application and eventually the supervision, yes.

Mr. SIMON. I refer you to one of the applications sitting in front of you and ask you if you will turn to that. Is that one of the 1953 applications, Mr. Barringer?

Mr. BARRINGER. Yes.

Mr. SIMON. Will you turn to the part that says "Equity" in there, on schedule A.

Mr. BARRINGER. Yes.

Mr. SIMON. Would you tell the committee what that means, sir?

Mr. BARRINGER. Well, at the time of the filing of the application, the sponsors estimate that is what they will put into the project.

The CHAIRMAN. Was that the cash amount they will put into the project?

Mr. BARRINGER. Well, it will have to be cash if it is equity over and above the mortgage, yes.

Mr. SIMON. The architect's fees and builder's fees shown there, Mr. Barringer—does that mean those will be paid for in stock or other than in cash?

Mr. BARRINGER. As to their method of paying for them, I don't know that the application would show, but they will have to pay—show the architectural fees paid in connection with this operation, and the builder's fee is probably included in his contract price, which is a lump-sum contract shown to us.

Mr. SIMON. What was the lump-sum contract shown you in these four cases?

Mr. BARRINGER. The total lump-sum contract was \$15,745,637.50.

Mr. SIMON. Mr. Barringer, did you know that these people had a separate contract with McShain, dated December 18, 1953, providing for a prime of \$18 million?

Mr. BARRINGER. We did not.

Mr. SIMON. Prior to our talk with you of last week, did you ever know that there was in existence that \$18 million contract?

Mr. BARRINGER. Well, in any deposition to you I had heard 2 days before or 3 days before, when Mr. McKenna, up in Mr. McKenna's office, one of his investigators mentioned such a contract had been found. That is the first that I had heard of it.

Mr. SIMON. That is the first you had heard of it?

Mr. BARRINGER. That is correct.

Mr. SIMON. Had you known that there was a contract in existence requiring these people to pay McShain \$18 million for constructing these buildings, would that have differed or altered the situation from what you had when you issued the commitments?

Mr. BARRINGER. Well, if we had known that prior to the issuing of the commitment, which took place in the fall of 1953, we would not have issued the commitment until we had ascertained what the effect of such a contract or side agreement with the corporation which controlled all of those corporations under which we had contracts with—what effect it would have on it and we would have asked headquarters to advise.

Mr. SIMON. In the first place, Mr. Barringer, it would have increased the required deposit or escrow for over-and-above money, wouldn't it?

Mr. BARRINGER. Well, it would have—the required deposit for over and above money is based on the difference between our valuation and the amount of our commitment. It would have had the effect, if the master contract had been used, in lieu of the contracts submitted to us, that the stage payment breakdown would have been larger and there would have been less money in the mortgage proceeds at the time of the closing of the loan.

Mr. SIMON. Secondly, FHA regulations prohibit second-mortgages on FHA insured properties, don't they?

Mr. BARRINGER. They do, and on a section 207, or any project, there is no permissible second trust.

Mr. SIMON. Isn't it also true that at the time of the completion of the project all debts and obligations of the sponsor other than to their own stockholders must be paid?

Mr. BARRINGER. That is correct, and that was not only understood by our office, but confirmed to us several times by the Chemical Bank & Trust Co. that there would be no obligations against these four mortgagor corporations.

Mr. SIMON. Did you know that the parent corporations of the 4 mortgagor corporations had agreed to pay \$1 million to the O'Driscoll interests over a period of 3 or 4 or 5 years?

Mr. BARRINGER. We did not.

Mr. SIMON. And you did not know that the so-called master agreement with McShain required somewhere around \$2 million to be paid over a period of time, which of course would only come from the income from the property? Did you know that?

Mr. BARRINGER. We did not know it, because we never saw the master contract and if I recall, both of those items that you spoke of were in the master contract.

Mr. SIMON. Mr. Barringer, do you know who in FHA has the initials DE?

Mr. BARRINGER. DE?

Mr. SIMON. Yes, I show you a memorandum here with some handwriting on it and it purports to be by somebody. Do you know whose handwriting the longhand part of that memorandum is by?

Mr. BARRINGER. That is, I think, Dean's signature?

Mr. SIMON. That refers to a meeting in Mr. Powell's office on May 5. Were you present at that meeting?

Mr. BARRINGER. States here that I was, so I feel certain I was there.

Mr. SIMON. Apparently there were three subjects discussed at that meeting. Will you tell us what No. 1 was?

Mr. BARRINGER. This refers to a letter from the Chemical—

Mr. SIMON. What is the first item on there for discussion?

Mr. BARRINGER. The first item of this memo simply indicates the meeting. The first item for discussion here—Mr. Powell has a letter from a bank.

Mr. SIMON. What is opposite No. 1 on there? Isn't there a figure "1" and then some writing after it?

Mr. BARRINGER. Well, down below it says "Mr. Powell will not request No. 1 above."

Mr. SIMON. Yes. What was No. 1 above that he was not going to request?

Mr. BARRINGER. I am trying to find the one referred to. I see. "One above" refers to the printed matter on the form above. The financial statement on sponsors.

Mr. SIMON. Isn't it a fact that for many months, Mr. Barringer, you have been having a lot of trouble getting a proper financial statement of sponsors?

Mr. BARRINGER. That is correct.

Mr. SIMON. And that memo says that Mr. Powell would not request financial statements of sponsors? Is that right?

Mr. BARRINGER. That certainly says that, sir.

Mr. SIMON. I show you what purports to be a carbon copy of a letter dated October 14, 1952, from you to Mr. McFarland and I ask you if you wrote him the original of that letter.

Mr. BARRINGER. I certainly did.

Mr. SIMON. And that letter tells him what deposits he is going to have to put up doesn't it?

Mr. BARRINGER. That is right.

Mr. SIMON. And the deposits include the architect's fee and the builder's fee.

Mr. BARRINGER. Yes. "Including the builder's and architect's fees in the maximum amount of mortgage to be insured."

Mr. SIMON. So whether the builders fee was equity or not would make a difference on the deposit, wouldn't it, and you so told him in that letter?

Mr. BARRINGER. That is right. That is standard for all.

Mr. SIMON. I show you what purports to be a carbon copy of a letter dated April 6, 1953, from you to Mr. McFarland, and I ask you if you wrote that letter and if so, would you read it into the record, please?

Mr. BARRINGER. That letter was written, yes.

Mr. SIMON. Will you read it into the record, please?

Mr. BARRINGER. "Arlington Towers Corp."—

The CHAIRMAN. What is the date of the letter?

Mr. BARRINGER. Letter dated April 6, 1953. Letter addressed to the Arlington Towers Corp. 1, care of Mr. Walter P. McFarland, 1501 Arlington Ridge Road, Arlington, Va.

Re Arlington Towers Corp.:

Gentlemen, this will confirm our previous telephone conversation, in regard to the sponsorship of the above-captioned project and we wish to bring to your attention the following information: (1) The mortgagor corporation cannot be a party to or liable on the sponsor's note to procure capital for this project, unless such sponsors can show their ability, prior to closing, to pay off such temporary loan by the time the project is completed. (2) The sponsors, as well as the builder, will have to be parties to and liable on the indemnity agreement, FHA form 2459, given as an assurance of the completion of this project.

Very truly yours,

THOMAS C. BARRINGER,
Director.

Mr. SIMON. In that you told them they had to pay all the outstanding commitments prior to closing, is that right?

Mr. BARRINGER. That is correct.

Mr. SIMON. I take it that had you known that they were going to

owe O'Driscoll and McShain money after closing that, that certainly would be included in what you had in mind?

Mr. BARRINGER. To the extent that that could be considered capital, or borrowed money, I would think so.

Mr. SIMON. You do not know whether it was borrowed money except as I have told you?

Mr. BARRINGER. That is right.

Mr. SIMON. I show you what purports to be a copy of a letter dated April 21, 1953—

Mr. BARRINGER. May I say here, we were referring of course now to the four corporate mortgagor corporations which are sponsors and not to the fifth company, which is the holding company, sir.

Mr. SIMON. The fifth company owns 100 percent of the stock of the sponsoring corporation, is that right?

Mr. BARRINGER. That is right.

Mr. SIMON. The fifth company owns the land on which the buildings are built; is that right?

Mr. BARRINGER. That is right.

Mr. SIMON. So far as you know the fifth company has no other assets other than the land and the leasehold, is that right?

Mr. BARRINGER. That is right.

Mr. SIMON. I show you what purports to be a copy of a letter dated April 21, 1953, from the Chemical Bank to Clyde Powell and ask you if you have ever seen that before?

Mr. BARRINGER. Yes, I have.

Mr. SIMON. In there the Chemical Bank in substance tells Mr. Powell that they are going to loan these people \$4 million, is that right?

Mr. BARRINGER. That is right.

Mr. SIMON. Subsequent to that letter, Mr. Powell apparently wrote the Chemical Bank on May 7, 1953, and I ask you if you have ever seen this letter before.

Mr. BARRINGER. I have.

Mr. SIMON. What did Mr. Powell tell the bank in that letter?

Mr. BARRINGER. This letter is in answer to the one you just submitted to me, April 21, from the Chemical Bank & Trust Co. outlining their method of financing.

Mr. SIMON. And Mr. Powell still talks about the need to repay the over and above money?

Mr. BARRINGER. That is correct. He makes it very clear.

Mr. SIMON. On October 23, did you write the Chemical Bank? I show you what purports to be a copy of a letter which you wrote that day and ask you if that was written by you?

Mr. BARRINGER. This letter was written by me, yes.

Mr. SIMON. That is roughly 5 months after the prior discussion we had about the bank loans, is that right?

Mr. BARRINGER. That is correct.

Mr. SIMON. Would you read that letter into the record, please?

Mr. BARRINGER. Letter dated October 23, 1953 to the Chemical Bank & Trust Co.:

Re FHA case Nos. 000,000-82,-85, Arlington Towers, Sections 1, 2, 3, and 4, Inc.
Proposed issuance of amended commitments.

GENTLEMEN: This is to advise you that the information submitted in connection with the above-captioned project is incomplete. Before we can complete our processing of this project, and reissue a commitment, it will be necessary

that we be furnished the following information: (1) Current financial statements on the sponsors and owners of this project. These statements should clearly show the owner's capacity to make the required escrow deposits as necessary by the terms of our present commitment; (2) current financial statements on the mortgagor corporation, which we understand holds an option on the subject land and possesses certain other assets. In replying to this letter it is suggested that you mention the above-captioned case number. Your cooperation in this matter is appreciated.

Very truly yours,

THOMAS BARRINGER.

Mr. SIMON. Did you every get the financial statements you said you would need before you could close the matter?

Mr. BARRINGER. Eventually we got financial statements on the sponsors.

Mr. SIMON. After that letter?

Mr. BARRINGER. We had some, I believe, prior to that.

Mr. SIMON. You had some prior to that and this letter says they aren't adequate. Did you ever get the adequate ones?

Mr. BARRINGER. For our purposes, yes.

Mr. SIMON. What did you get?

Mr. BARRINGER. We got balance sheets on the four—either what we previously had, or the one that was missing, I believe, was a current one on Mr. McFarland. Prior to that time he only had a credit report.

Mr. SIMON. You are telling us after October 23 you got some more financial statements, is that right?

Mr. BARRINGER. I feel quite certain—I know at this time we did not have what we considered adequate information and we wanted current data.

Mr. SIMON. On October 23, you did not have what you considered adequate information, is that right?

Mr. BARRINGER. That is right.

Mr. SIMON. You are now telling us that after October 23, you got things that you considered adequate?

Mr. BARRINGER. We did.

Mr. SIMON. When did you get them and who did you get them from?

Mr. BARRINGER. Well, we got additional information on the sponsors that we did not have and more than that, we got a clearer statement from the Chemical Bank & Trust Co. showing who was going to be the maker or the endorser of the note.

Mr. SIMON. You are certain of that, now?

Mr. BARRINGER. I am certain that before closing, sir, we knew that they would be the maker.

Mr. SIMON. I show you what purports to be a letter from you to Mr. Powell dated October 26, 1953, and ask you if you wrote that letter.

Mr. BARRINGER. I did.

Mr. SIMON. Did you hand-carry it over to him?

Mr. BARRINGER. I did.

Mr. SIMON. Does that letter in substance say that you still do not have adequate financial statements on these sponsors?

Mr. BARRINGER. On October 26, we did not have, yes.

Mr. SIMON. And that is what the letter says?

Mr. BARRINGER. That is correct.

Mr. SIMON. Well, did you leave the letter with Mr. Powell?

Mr. BARRINGER. I wished to leave it with him but he handed it back to me with the statement that—to go ahead and get the financial state-

ments from the sponsors but that the letter of October 21, or April 21, from the Chemical Bank & Trust Co. was the basis upon which the commitment would be issued.

Mr. SIMON. He told you—in the first place, he refused to accept the letter, is that right?

Mr. BARRINGER. I wouldn't say he refused to accept the letter. He just didn't want to answer it. He handed it back to me with the statement he didn't have time to answer the letter, because—and gave me the verbal reply.

Mr. SIMON. And his verbal reply was that the April 21 letter from the Chemical Bank would suffice, is that right?

Mr. BARRINGER. That was my understanding. I covered it by a memorandum when I got back to the office.

Mr. SIMON. I show you what purports to be a photostatic copy of your memorandum and ask you if that is the memorandum you wrote when you got back to the office?

Mr. BARRINGER. That is the letter I wrote when I got back to the office.

Mr. SIMON. Will you read that memorandum into the record, please?

Mr. BARRINGER. This is an office memorandum dated August—October 28, 1953—

Memorandum for the file. From Director, District of Columbia Insuring Office. Subject: Arlington Towers, sections I, II, III, and IV, inclusive, FHA cases Nos. 000,000,82-85.

This memorandum was attached to letter dated October 26, 1953, to Mr. Powell—

This letter was discussed with Mr. Powell on October 27, 1953, who read same, but was not left with him as he stated he would have no reply other than that we get what we need in the way of financial information on the sponsors. He handed all the letters that he had in connection with the case and stated the letter in question from the Chemical Bank & Trust Co. as being sufficient to issue a commitment to the group was in our files. This referred to a letter of April 21, 1953, from the Chemical Bank & Trust Co., a copy of which is in our files.

Mr. SIMON. I gather from your letter you did not think the April letter was sufficient, did you?

Mr. BARRINGER. Well, I would like to state that that letter of April 21 was not in our files at the time I presented that letter to Mr. Powell and I left his office and got it from the upstairs files and put it in our files so that this memo would indicate that we had received it in our files.

Mr. SIMON. But the letter from the Chemical Bank said nothing about financial responsibility of the sponsors, did it?

Didn't it merely say the Chemical Bank would make a loan?

Mr. BARRINGER. That is correct.

Mr. SIMON. You knew the Chemical Bank loan was being made at least in part on the guaranty of John McShain, didn't you?

Mr. BARRINGER. That is right.

Mr. SIMON. And John McShain was not a sponsor, was he?

Mr. BARRINGER. That is right.

Mr. SIMON. You had been expressly told that, hadn't you?

Mr. BARRINGER. That is correct.

Mr. SIMON. Who is Mr. Elliott?

Mr. BARRINGER. Mr. Elliott is the chief underwriter of the district office.

Mr. SIMON. I show you what purports to be a copy of a letter from Mr. Elliott, dated November 3, 1953, to Kirk Mack. Would you tell me who Kirk Mack is?

Mr. BARRINGER. Kirk Mack?

Mr. SIMON. Kirk Mack.

Mr. BARRINGER. He was the Assistant Commissioner in charge of underwriting.

Mr. SIMON. Have you ever seen that letter before?

Mr. BARRINGER. Yes. I am familiar with this letter.

Mr. SIMON. That letter says, does it not, that as late as November 3, if you will look in the very bottom paragraph of the letter—the first page, the bottom paragraph of the first page—Mr. Mack was being told by the chief underwriter in the Washington office they still did not have the financial statements they wanted, isn't that true?

Mr. BARRINGER. That is correct.

Mr. SIMON. And that letter preceded a letter from Elliott to Mack dated October 9, 1953, I believe. I show you a copy of it and ask if you can identify it.

Mr. BARRINGER. May I state here at this time that this letter specifically wanted to bring out the information as to who the maker and the guarantors were on the loan.

Mr. SIMON. But it still says in that bottom paragraph on page 1 that you still do not have that financial statement, is that right?

Mr. BARRINGER. That is correct.

Mr. SIMON. Can you identify that letter?

Mr. BARRINGER. This letter was written. This is in our files, yes.

Mr. SIMON. So that when Mr. Elliott wrote on November 3, that was the second time he was complaining about not getting a financial statement, is that right?

Mr. BARRINGER. That is correct.

Mr. SIMON. Mr. Barringer, did you have a conference with Clarence Dinkins of our staff about July 7, 1954?

The CHAIRMAN. Let me ask a question, now. Did you ever get the financial information which you needed?

Mr. BARRINGER. Yes, we did.

Mr. SIMON. Where is that?

The CHAIRMAN. Where is it?

Mr. BARRINGER. It would be in our docket, our credit folder, which shows the financial statements on the sponsors.

Mr. SIMON. It would have to have been received between November 3 when Mr. Elliott wrote the last letter and December 4, when the commitment was issued, is that right?

Mr. BARRINGER. That is correct. I asked the office just recently.

The CHAIRMAN. Are you still with FHA?

Mr. BARRINGER. Yes.

The CHAIRMAN. Can you assist us in finding this information in the files, because we are unable to find it.

Mr. BARRINGER. You mean the financial statements that were submitted?

The CHAIRMAN. The financial statement that was submitted in the short period of time about which you were complaining, that you did not have sufficient information. We would like to have your help in finding them, because we can't find them. Do we have a financial statement of Mr. McFarland?

See if he identifies that and if that is all the information that you have. Is this the information that you based the loan upon?

Mr. SIMON. That statement is dated 1952, and I take it if that was presented to you, that is the one you felt inadequate, is that right?

Mr. BARRINGER. Well, I personally do not see the financial statements. That is handled in the office, and the mortgage credit man, obtained, I feel certain, a later one, because if this is the one that we received, as of that date, we certainly asked for something more sufficient.

Mr. SIMON. We have also, Mr. Barringer, a typewritten document that Mr. McFarland has given us, with a notation that a copy of it was given to FHA on December 1, 1953. I would like to ask you if that is the revised financial statement on which this commitment was issued.

Mr. BARRINGER. Could I see it?

Mr. SIMON. Yes, sir.

The CHAIRMAN. Tell us if that is the information you received in that short period of time that caused you to issue the commitment?

Mr. BARRINGER. I would think that it would be, although I personally wouldn't know, because I didn't see the financial statement.

Mr. SIMON. What is the net worth on the 1953 financial statement? What is the net worth?

Mr. BARRINGER. \$218,000, according to this statement.

Mr. SIMON. What is the net worth on the 1952 one?

Mr. BARRINGER. \$218,549.

Mr. SIMON. No, on the 1952 statement.

Mr. BARRINGER. Net worth, \$184,400.

Mr. SIMON. So that the difference between the 1952 statement and the 1953 statement was roughly \$34,000?

Mr. BARRINGER. Roughly, yes.

Mr. SIMON. On a \$22 million project, would you think that made any substantial difference?

Mr. BARRINGER. The financial statement of Mr. McFarland, or any of the sponsors, was not the basis upon which—

Mr. SIMON. Why all this correspondence then, over a period of 5 months insisting on the financial statement?

Mr. BARRINGER. We wanted their financial statement for the record, first, but more than that, we wanted to know who was going to be the maker of that loan, who was going to guarantee the repayment of that loan.

Mr. SIMON. Mr. Barringer, I asked you whether about July 7, 1954, you had a meeting with Clarence Dinkins, of our staff, who sits at my right.

Mr. BARRINGER. That is right.

Mr. SIMON. At that time, did you tell him that you would not have approved the commitments, except under the orders of Mr. Powell?

Mr. BARRINGER. That is not correct, sir.

The CHAIRMAN. Will you step aside, Mr. Barringer?

Mr. Dinkins, will you please take the witness stand?

Will you be sworn? Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF CLARENCE M. DINKINS, ASSISTANT COUNSEL,
BANKING AND CURRENCY COMMITTEE

Mr. DINKINS. Yes, sir.

The CHAIRMAN. Thank you, sir.

You may give your name and address to the reporter.

Mr. DINKINS. Clarence Dinkins, assistant counsel, employed by this committee.

The CHAIRMAN. Your home is where?

Mr. DINKINS. Washington.

The CHAIRMAN. You are a lawyer by profession?

Mr. DINKINS. Yes, sir.

The CHAIRMAN. You may proceed.

Mr. SIMON. Mr. Dinkins, on or about July 7, 1954, did you have a meeting with Mr. Barringer?

Mr. DINKINS. Yes, sir.

Mr. SIMON. Where did the meeting take place?

Mr. DINKINS. Mr. Simon, I had just finished going through some files that Mr. Barringer made available to me, and after I had finished my work I went by Mr. Barringer's office, to thank him for his courtesies and while I was there we had a general conversation about the Arlington Towers situation.

Mr. SIMON. So far as the files are concerned, the photostats that were produced here today and identified by Mr. Barringer, you obtained the documents from files and had them photostated?

Mr. DINKINS. That is right.

Mr. SIMON. This meeting was in Mr. Barringer's office?

Mr. DINKINS. Yes, sir.

Mr. SIMON. Who was present?

Mr. DINKINS. We had two meetings, Mr. Simon; one when I first came to see Mr. Barringer and one when I was leaving. At one of these meetings it was just Mr. Barringer and myself and at one of the other meetings he called in two of his associates.

Mr. SIMON. Do you know who they were?

Mr. DINKINS. A Mr. Burnett was in there for a while but I believe it was a Mr. Dean, and I can't recall the other name.

Mr. SIMON. Mr. Dean?

Mr. DINKINS. I believe so.

Mr. SIMON. At one of these meetings, did Mr. Barringer tell you flatly that he would not have approved the commitments except under the orders of Mr. Powell?

Mr. DINKINS. Yes, sir.

May I explain how that came about?

Mr. SIMON. Yes, sir.

Mr. DINKINS. I told Mr. Barringer, I had been reading these letters, where he and his associates had been continuously insisting on financial statements from the sponsors, but unsuccessfully. Then, just after that time, they had this meeting in Mr. Powell's office, at which Mr. Powell stated that it was not necessary to get financial statements from the sponsors.

Then I asked Mr. Barringer, had it not been for the meeting in Mr. Powell's office, and the statement from Mr. Powell, would he have approved the commitment and I understood him to say no.

Mr. SIMON. Mr. Dinkins, when you returned to your office, did you make a memorandum of your meeting?

Mr. DINKINS. Yes, that is correct.

Mr. SIMON. I show you a document dated July 7, 1954, purporting to bear your signature and I ask you whether that is the memorandum you made immediately upon returning to your office?

Mr. DINKINS. That is correct.

Mr. SIMON. Would you read the paragraph on page 3 that I have marked?

Mr. DINKINS (reading):

In discussing this with Mr. Barringer he told me flatly that he would not have approved the commitments, except under the orders of Mr. Powell. He did say, however, that in view of the loan from the Chemical Bank, plus the good financial standing of John McShain, Inc., he felt that the Government was quite well-protected.

The CHAIRMAN. Thank you.

Mr. Hauser, of the Chemical National Bank of New York City, will you please come forward.

Mr. Hauser, will you please be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF RUSSELL L. HAUSER, ASSISTANT VICE PRESIDENT, CHEMICAL BANK & TRUST CO., ACCOMPANIED BY SHERMAN WOODWARD, COUNSEL

Mr. HAUSER. Yes, sir.

The CHAIRMAN. Thank you, sir.

Will you give your full name to the reporter, please, for the record. And I presume the gentleman with you is your attorney.

Mr. WOODWARD. My name is Sherman Woodward, 20 Exchange Place, New York City.

The CHAIRMAN. What firm are you with?

Mr. WOODWARD. Sherman and Sterling Wright.

The CHAIRMAN. New York City?

Mr. WOODWARD. Yes, sir.

The CHAIRMAN. Give your name now, Mr. Hauser.

Mr. HAUSER. Russell L. Hauser, H-a-u-s-e-r, assistant vice president, Chemical Bank & Trust Co., New York City.

The CHAIRMAN. Assistant vice president?

Mr. HAUSER. That is correct, sir.

The CHAIRMAN. Are you in charge of any department?

Mr. HAUSER. Not as such.

I have considerable to do with the FHA loans.

The CHAIRMAN. You are the expert on FHA loans for the bank?

Mr. HAUSER. I wouldn't call myself an expert but I do handle FHA loans at the Chemical Bank.

The CHAIRMAN. I hope you are not offended by being called an expert.

Mr. SIMON. Mr. Hauser, are you familiar with the Chemical Bank's loan commitment to the Arlington Towers group?

Mr. HAUSER. I am, sir.

Mr. SIMON. When did that originate in your bank?

Mr. HAUSER. In January 1953 we approved loans for this project in the amount of up to \$4 million, on an unsecured basis, for over and above money and up to \$17 million for FHA insured mortgage loans.

Mr. SIMON. The so-called unsecured loan of \$4 million, was that guaranteed by both John McShain and John McShain, Inc.?

Mr. HAUSER. The over and above unsecured loan——

The CHAIRMAN. You mean by over and above: that was the amount that you loaned over and above the mortgage commitment?

Mr. HAUSER. That is correct; that we committed to loan over and above the mortgage commitment. That loan was guaranteed by Walter P. McFarland, John Loughran, Edward Johnson, William Kress, John McShain, John McShain, Inc., and Arlington Towers Land Corp., the parent company.

The CHAIRMAN. Arlington Towers——

Mr. HAUSER. Arlington Towers Land Corp., the parent company.

Mr. SIMON. Mr. Hauser, would your bank have made that loan without the guaranties of John McShain and John McShain, Inc.?

Mr. HAUSER. The guaranties of John McShain and John McShain, Inc., were very important factors. However, in addition to those guarantors the sponsors did submit statements——

Mr. SIMON. Would you have made the loan without the guaranties of McShain and his company?

Mr. HAUSER. Probably not.

Mr. SIMON. When the people first came to you, had it already been agreed that McShain was going to build this building?

Mr. HAUSER. That is correct, sir.

The CHAIRMAN. Who brought the project to you?

Who brought the account to you?

Mr. HAUSER. I might go back just a step.

The account, or the project was introduced to us by a Mr. Gallop.

The CHAIRMAN. Mr. Gallop, what is his first name?

Mr. HAUSER. Robert, I believe.

The CHAIRMAN. Robert Gallop of Washington, D. C.

Mr. HAUSER. No, 30 Broad Street, New York City, a customer of the bank, who knew one of my associates, Lloyd McMillan, and he discussed the matter with Lloyd McMillan, and then around the middle of January, Mr. McFarland and his sponsors were in the bank on an occasion or so, and we agreed to the loan around the 20th or 21st of January 1953.

Mr. SIMON. Was one of the conditions of the loan, Mr. Hauser, that an FHA commitment be obtained for this property here in nearby Virginia?

Mr. HAUSER. It followed as a matter of course that we would have to have the FHA mortgage commitments, because our loan was partially a \$17 million, section 207, FHA-insured loan, and if we did not have any commitments we could not have an FHA-insured mortgage.

Mr. SIMON. Isn't the reason that this matter was in abeyance from January of 1953 when you issued your commitment until December that FHA didn't issue their commitment until December?

Mr. HAUSER. No, sir. The delay from January 1953 to December of 1953 was due to a number of reasons.

Mr. SIMON. Would you have gone ahead with the loan prior to December 1953 without the FHA commitment?

Mr. HAUSER. Obviously, we could not because we could not have an FHA section 207 insured mortgage.

Mr. SIMON. When these people first came to you, did they tell you that McShain was going to build this building?

Mr. HAUSER. They told us at the very first conference that John McShain, Inc., would be the general contractor.

Mr. SIMON. And did they tell you that \$18 million was to be the price?

Mr. HAUSER. As I recall, at the first conference in the middle of January, when Walter McFarland and his sponsor associates were in the office, he told us at that conference that he had to get \$17 million in cash to pay the general contractor, and there was an additional amount to be paid on a deferred basis, and—

Mr. SIMON. Is that a million dollars that they were to pay him?

Mr. HAUSER. I don't understand.

Mr. SIMON. Was that deferred amount \$1 million?

Mr. HAUSER. \$1 million, sir.

Mr. SIMON. So McShain, Inc., was to be paid \$17 million in cash for building the building, and \$1 million on a deferred basis; is that right?

Mr. HAUSER. That was my understanding at the inception of this negotiation.

Mr. SIMON. Which is \$18 million?

Mr. HAUSER. That is correct.

Mr. SIMON. Where was that \$1 million deferred basis money to come from?

Mr. HAUSER. We, as lender on the mortgage loan, and as lender of the unsecured loan were not particularly concerned where the money came from but we did understand that the owner of this land, or the sponsors—I didn't go into that in detail—would be obligated to take care of the balance to the contractor. We did not have any direct concern as to who paid the money as long as the contractor was satisfied on his own.

Mr. SIMON. The corporations would somehow have to pay the other million dollars; is that right?

Mr. HAUSER. That is correct.

Mr. SIMON. Did you insist that the contract price would have to be reduced so as to come under the mortgage commitment?

Mr. HAUSER. At the time of the first conference, that was not necessarily a factor that presented itself, but as you may recall, in the spring of 1953, the mortgage market broke very sharply. It was almost impossible to sell a mortgage to any of the savings banks or insurance companies.

Interest rates were firming, and it was practically impossible to sell these mortgages at that time.

Mr. SIMON. Did you insist that the contract price, so far as the mortgage commitment at least was concerned, be reduced to an amount below the FHA commitment?

Mr. HAUSER. Yes, sir.

If I may pursue my previous thought—because of the decline in the mortgage market, that raises questions and made it impossible—at least made—at least we did not know where there would be the \$17 million in cash, if I may proceed, because there was apparently going to be a discount of some five or six hundred thousand dollars on the

mortgages and then there was the additional uncertainty as to the exact amount that might be the FHA final commitments which Mr. McFarland hoped to be \$17 million or thereabouts, or more.

Mr. SIMON. I take it the softening of the mortgage market you referred to made it all the more important that there be adequate equity in this project, didn't it?

Mr. HAUSER. That is correct.

We insisted—to answer your question just a second ago—we insisted as time passed that the construction contract, so far as the cash payments by the mortgagor corporations are concerned, those contracts would have to be reduced on a cash basis, to the point that we would have a sound loan, that was sound from the standpoint of the Chemical Bank and as well sound from the standpoint of the Federal Housing Administration.

Mr. SIMON. Mr. Hauser, the FHA commitments on the 4 projects totaled \$16.5 million, is that right?

Mr. HAUSER. The commitments on the four projects, as finally issued, were in the neighborhood of \$16,500,000.

Mr. SIMON. And the reduced McShain contracts for these 4 projects were in the amount of 15.7 million?

Mr. HAUSER. The Chemical Bank determined that the contractor could only expect to get cash, which turned out to be a total of \$15,700,000 for these contracts, on a cash basis, although we were fully aware that any deduction in the contractor's cash price below this \$17 million figure was going to have to be made up by the sponsors or the parent on a deferred basis.

Mr. SIMON. And because you feel that out of the \$16.5 million loan only \$15.7 million would be available, the contractor, McShain, was required to reduce the price to the four corporations to that amount, is that right?

Mr. HAUSER. I am not certain that I just understand your question, sir.

Mr. SIMON. Well, the FHA commitments were \$16.5 million.

Mr. HAUSER. That is right.

Mr. SIMON. If I understood you a minute ago you said you computed that that meant about \$15,700,000 would be available in cash, after the expenses of the mortgage; is that right?

Mr. HAUSER. No.

Mr. SIMON. What did you say a moment ago?

Mr. HAUSER. I stated that the mortgages totaled \$16,500,000 or thereabouts; that the contractors' cash contract price was \$15.7 or thereabouts, but I can't go any further with you—

Mr. SIMON. Maybe I misunderstood you but I thought you said that you figured that out of the \$16,500,000, that after they paid the expenses there would only be \$15,700,000 left.

Mr. HAUSER. That is not the entire story.

In this project, the parent company is making an investment of approximately \$1,200,000 in cash—

Mr. SIMON. I appreciate it is not the entire story.

But I was trying to find out whether you did say that of the \$16,500,000 of mortgage money, that after the expenses there would only be \$15,700,000 left.

Mr. HAUSER. No. I didn't say that.

Mr. SIMON. Isn't that true?

Mr. HAUSER. No, because there are other funds outside of the \$16,500,000.

Mr. SIMON. I appreciate that. Didn't you say there would only be \$15,700,000 of these funds left?

Mr. HAUSER. No.

I did not say there would be \$15,700,000 of these funds left.

Mr. SIMON. How was the \$15,700,000 arrived at?

Mr. HAUSER. The \$15,700,000 was arrived at by the Chemical Bank. We computed the available cash funds that were going to be in these four borrowing mortgagor corporations, and then we determined what the general cash expenses would be, one, carrying charges and miscellaneous costs for construction on a cash basis, and then we determined that the difference would be allowed to the general contractors.

Mr. SIMON. Right.

When you determined the net was \$15,700,000, then you asked the contracts between McShain and the 4 sponsoring corporations be in that amount; is that right?

Mr. HAUSER. That is correct.

Mr. SIMON. The land corporation, which was the parent company—did you know its capital stock was only \$2,000?

Mr. HAUSER. We did not know the capital stock was \$2,000, or any specific amount. We do not have the statement of the parent company, or any of the subsidiaries. It is not of any primary consequence in handling these projects.

Mr. SIMON. But you did insist, did you not, that before this deal went ahead, they had to get this Teachers Insurance loan on the fee; is that right?

Mr. HAUSER. It was a condition of our commitment that approximately \$1,200,000 would be placed in these mortgagor corporations by the parent company, and be understood that the parent company was getting that money from the Teachers Insurance.

Mr. SIMON. And you knew they got that \$1,200,000 out of the Teachers Insurance Mortgage by borrowing, roughly, a \$1,900,000, paying \$700,000 still due on the purchase price, and that would leave \$1,200,000; is that right?

Mr. HAUSER. That is right.

Mr. SIMON. Did you know they were still to owe Mr. O'Driscoll \$1 million on account of the purchase of the land?

Mr. HAUSER. I have heard Mr. McFarland mention on a number of occasions that the parent company had a great many other liabilities for land purchase, and other items, in addition to what they would owe the contractor on a deferred basis, for the bare construction of the building.

Mr. SIMON. When the McShain contract with the sponsoring corporations was reduced from \$16 million to \$15,700,000, that meant this \$1 million that had to be paid by the land corporation would necessarily be increased from \$1 million to \$1,200,000; is that right?

Mr. HAUSER. That is substantially the substance of it, sir.

Mr. SIMON. Thank you.

The CHAIRMAN. Thank you very much.

We appreciate your testimony.

Did you see the financial statement?

Mr. SIMON. He furnished that.

The CHAIRMAN. You furnished us with a copy of these financial statements of the sponsoring concern?

Mr. HAUSER. I did.

The CHAIRMAN. You said something a minute ago that interested me very much. You said you had no interest in the sponsoring corporations, in buying these FHA mortgages?

Mr. HAUSER. No, sir. I want to distinguish between sponsoring corporations and sponsors. When I say sponsors, I mean the men individually.

When I say the sponsoring corporations, I am thinking——

The CHAIRMAN. You said you had no interest in whom, sponsors or sponsoring corporations?

Mr. HAUSER. I had no interest in the common stock equity of the mortgagor corporations because in handling these loans we feel that is not any criteria of a sound or unsound project.

We are primarily interested in making certain that the people we are dealing with are reliable and substantial and able to see their job through to completion, and we are further——

The CHAIRMAN. How long was this mortgage to be?

Mr. HAUSER. About a 39-year mortgage, I believe.

The CHAIRMAN. Thirty-nine years?

Mr. HAUSER. I believe it is.

The CHAIRMAN. Did you know Mr. McFarland had had no experience in building or no experience in running an apartment house or building of this type?

Mr. HAUSER. We understood he had not been in some one of these projects before, but he had a contractor who could proceed and build the project.

The CHAIRMAN. That was to build the project, but you were relying on a mortgage that was going to run 39 years.

You had no interest then in Mr. McFarland's past experience, as to his ability to operate this property; is that right?

Mr. HAUSER. We were interested in if he is a reliable and responsible and honorable man, but as to his experience a great many of these rental housing projects were sponsored by people who had had no previous experience.

The CHAIRMAN. Would you have made this loan under the same conditions if FHA had not guaranteed it a hundred percent?

Mr. HAUSER. I say we could not have—no, we would not have made a \$16,500,000 mortgage loan, if it didn't have the FHA insurance.

The CHAIRMAN. Thank you, sir.

Mr. HAUSER. I might add, our interest in these mortgages is primarily of a construction nature. We have take-out commitments from three New York savings banks, which have agreed to buy these mortgages from us upon completion of construction.

The CHAIRMAN. Thank you very much, unless you have something further to say. Now, we will call Mr. Mason, the present acting FHA Commissioner.

Mr. Mason, will you be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF NORMAN P. MASON, ACTING COMMISSIONER,
FEDERAL HOUSING ADMINISTRATION, ACCOMPANIED BY LOUIS
A. TREVAS, COUNSEL, HOUSING AND HOME FINANCE AGENCY

Mr. MASON. I do.

The CHAIRMAN. Will you give your name?

Mr. MASON. My name is Norman P. Mason, and I am Acting Commissioner of the Federal Housing Administration.

Mr. SIMON. Mr. Mason, you are the present Acting Commissioner of the Federal Housing Administration.

Mr. MASON. Yes, sir.

Mr. SIMON. You have been in since April of this year, I believe?

Mr. MASON. April 13.

Mr. SIMON. Prior to a week or so ago did you have any personal knowledge of this case?

Mr. MASON. My first knowledge of this case came from your committee, sir.

Mr. SIMON. Within the last week or 10 days?

Mr. MASON. That is correct.

Mr. SIMON. We have had a great number of cases, Mr. Mason, in the last 3 weeks, where the testimony of witnesses showed that the statements of fact in the applications for FHA mortgages were not true. Unfortunately, in all of those cases, the applications were filed more than 3 years ago and the statute of limitations has expired.

In this case, the applications were filed within the last year and a half. Does that make any difference to your Administration?

Mr. MASON. It certainly does, sir, and we have taken action on that basis.

Mr. SIMON. Will you tell us what you have done, Mr. Mason?

Mr. MASON. When the information from your committee, which we, of course, follow very closely, came to our attention, we proceeded immediately to instruct the investigatory staff, which is conducting the investigation for our level, at the Housing and Home Finance Agency, to make a report on this case to us, to see what the facts were so far as they could determine, them so that we could take corrective action. Because, as you indicate, it is within our power to take such action. They conducted an investigation, and are still doing so for us, and they have found certain facts which have caused the case to be referred already to the Department of Justice, sir.

Mr. SIMON. Then the case was referred to the Department of Justice?

Mr. MASON. Yes, sir.

Mr. SIMON. For what action?

Mr. MASON. For criminal action, sir.

Mr. SIMON. Thank you, sir.

The CHAIRMAN. On what basis?

Mr. MASON. I have not the facts before me, Senator Capehart. It was developed by the investigators to the committee——

The CHAIRMAN. On the basis of fraud in filing the application?

Mr. MASON. I would say it was probably on the basis of fraud in filing the application.

The CHAIRMAN. If there are no further questions, thank you, sir.

I see now it is 25 after 12. I think we will recess until 2 o'clock, at which time our witnesses will be group of people from Tennessee. Our first witness will be Edward Korman, Col. Hoyt Prindle and Robert Lessiter, after which we will hear Mr. Alexander Muss; unless Mr. Hauser and Mr. McFarland or Mr. Barringer wish to be heard further.

If they do we will be glad to hear them further this afternoon.

Mr. GOULD. You do not require Mr. McFarland's further presence? He is not being requested to remain further?

The CHAIRMAN. We do not require his further presence.

If he wants to testify this afternoon, further, has a statement to make, we will be glad to receive it.

Mr. GOULD. No, sir.

He has no statement to make.

The CHAIRMAN. We will recess now until 2 o'clock, at which time we will hear the witnesses I have mentioned.

(Whereupon, at 12:25 p. m., a recess was taken, the hearing to reconvene at 2 p. m., of the same day)

AFTERNOON SESSION

The CHAIRMAN. The committee will please come to order.

I would like to have the record show that Mr. McShain was here this morning and we told him he could testify this afternoon if he wanted to.

We did not subpoena him. We have been notified that Mr. McShain will not testify this afternoon but would like to reserve the right to testify later.

I would like to have the record show that we would be happy to have Mr. McShain testify, any time he cares to testify.

I would like to repeat that any man's or woman's name mentioned in these public hearings, who feel they have been misrepresented, who feel they have been injured, who feel they would like to file a statement in their own behalf or appear in person will be permitted to do so. That goes for everybody whose name is mentioned. One must keep in mind: when we ask a witness a question under oath he has to answer, and sometimes that brings in the names of people that we do not know, and whose names we did not know were going to be brought into the testimony.

My point is and I want the record to show it, that anybody that feels they have been injured, who would like to make a statement in writing or personally testify, we will be glad to hear them.

Mr. BARRINGER. Mr. Chairman, could I clarify for the record the difference of opinion—

The CHAIRMAN. Mr. Barringer, we would be happy to permit you to file a statement or appear again in person, or do it right now, if you want to.

Would you like to do it right now?

Mr. BARRINGER. I would like to do it right now.

The CHAIRMAN. You have been sworn in?

Mr. BARRINGER. Yes, sir.

The CHAIRMAN. This will be a continuation of your testimony of this morning.

Will you proceed then, and make your statement?

TESTIMONY OF THOMAS BARRINGER, DIRECTOR, FEDERAL HOUSING ADMINISTRATION, DISTRICT OF COLUMBIA—Resumed

Mr. BARRINGER. I would like to state that the statement made for the record this morning by Mr. Dinkins, investigator for this committee, stated that I made a statement and I denied such a statement.

The CHAIRMAN. You do again deny it?

Mr. BARRINGER. I deny the statement as presented; yes, sir.

The CHAIRMAN. Yes, sir. I see.

Mr. BARRINGER. Mr. Dinkins was in my office in the presence of two other men, and I have checked back with them and I am confident I made no such statement, the way it was presented.

I would like to state, though, that in discussing this matter with Mr. Dinkins, the record showed that the issuing of these commitments was authorized by Mr. Powell, which was the current procedure under this project of this size.

The CHAIRMAN. Let me see.

Mr. Powell was your immediate superior?

Mr. BARRINGER. He was not my immediate superior but he was acting for the Commission as Assistant Commissioner in charge of rental housing.

The CHAIRMAN. He could overrule you if he so desired.

Mr. BARRINGER. That is correct.

The CHAIRMAN. Did he overrule you in this instance?

Mr. BARRINGER. That is what I want to state.

Mr. Powell did not overrule—direct the issuing of this commitment over the protest of the office, which might be inferred——

The CHAIRMAN. Over the protest of the office—what do you mean by “the office”?

Mr. BARRINGER. The local insuring office, FHA.

The CHAIRMAN. That was you?

Mr. BARRINGER. That was I, and the inference might be conveyed by the difference of the statement that Mr. Dinkins and myself—but that should not be inferred, sir. It was only that he carried out the procedure and directed us to issue the commitment and I think that if we had had a protest at the time, we would have naturally made it a matter of record, sir.

Mr. SIMON. Mr. Barringer, did you approve the commitment in advance of Mr. Powell’s determination?

Mr. BARRINGER. No, sir.

That is not—the commitment papers and all of the data supporting the issuing of the commitment is referred to headquarters. The commitments were originally approved for issuance by the Commissioner, on April 5.

Mr. SIMON. Whenever you referred it to what you call headquarters I take it you mean the Commissioner’s office?

Mr. BARRINGER. To Mr. Powell’s office, which is the officer in charge—the headquarters office, charge of rental housing projects.

Mr. SIMON. When you referred it to Mr. Powell’s office, did you recommend favorably or unfavorably on the commitment?

Mr. BARRINGER. I don’t know the letter sent up had any procedure one way or the other on that. The fact we had to refer it to him for review, sir——

The CHAIRMAN. Maybe I can clear it up.

You were the Washington, D. C., FHA director in charge of this project?

Mr. BARRINGER. That is correct, sir.

The CHAIRMAN. You had the authority to issue the permit or deny it?

Mr. BARRINGER. That is right, sir.

The CHAIRMAN. The question is, Did you recommend it or did you deny it?

Mr. BARRINGER. We depend on headquarters on this particular case, because we cannot—it was all prepared for the purpose of committing.

The CHAIRMAN. Let me ask you this, then: In all cases of section 608's or section 207's, which this was, are you required or were you required to get Mr. Powell's approval?

Mr. BARRINGER. On projects in excess of \$3 million per——

The CHAIRMAN. You were required to get Mr. Powell's approval?

Mr. BARRINGER. That is right, sir.

The CHAIRMAN. Did you recommend this project to Mr. Powell?

Mr. BARRINGER. Well, sir, we had processed——

The CHAIRMAN. It seems to me like you could answer the question very simply and directly since you were in full and complete authority.

Mr. BARRINGER. I will grant you, sir, I am not trying to avoid the question.

The CHAIRMAN. Did you recommend the project?

Mr. BARRINGER. Actually no, in so many words.

The CHAIRMAN. In other words, you did not recommend it, did you?

Mr. BARRINGER. We did not recommend it nor did we state that we had any objections to it but it was sent up for review and approval of the entire project.

The CHAIRMAN. If Mr. Powell would talk and testify that he asked your opinion, meaning you, or said to you: "Do you approve this, Mr. Barringer?" what would your answer be?

Mr. BARRINGER. I would say I approve it, subject to the clearance of all the factors on this case that required headquarters' clearance.

Mr. SIMON. Were they cleared?

Mr. BARRINGER. They were, sir.

Mr. SIMON. All of them?

Mr. BARRINGER. The letter from the Chemical Bank & Trust Co., which set out all the papers on November 25.

The CHAIRMAN. I had that this morning. It was just a little typewritten sheet. It showed the assets of this Mr. McFarland in round figures, like cash, \$10,000—securities——

Mr. BARRINGER. This letter was the basis upon which we forwarded everything to headquarters because it outlined all the detail, sir.

The CHAIRMAN. I don't believe you still answered the question directly.

Did you or did you not approve the project?

Mr. BARRINGER. I did, sir.

The CHAIRMAN. You did approve it?

Mr. BARRINGER. Yes, sir.

Mr. SIMON. Did you recommend its approval to Mr. Powell?

Mr. BARRINGER. Well, of course, when you say "recommend," the fact that I sent it to headquarters in accordance with procedure would

mean that we recommended. Otherwise, I would have sent up a rejection.

The CHAIRMAN. Then the answer to the question is you did recommend it to Mr. Powell?

Mr. BARRINGER. That is correct.

The CHAIRMAN. Thank you, sir, unless you have a further statement to make. You recommended approval of the project but, as you testified here this morning, you did not know of the second contract with Mr. McShain?

Mr. BARRINGER. That is correct, sir.

The CHAIRMAN. You did not know of these other factors?

Mr. BARRINGER. And upon receipt of this letter from Chemical Bank & Trust, outlining that—

The CHAIRMAN. Thank you, sir, unless you have something further.

Mr. BARRINGER. No, sir, I wanted to clarify it.

The CHAIRMAN. As I said before, any witness or person whose name is injected into these hearings, who feels they would like to clear up any points in their behalf may do so either in person or in writing.

Mr. BARRINGER. I felt it put me in position of being at a variance.

The CHAIRMAN. Thank you, sir.

You are excused.

Our first witness this afternoon will be Mr. Korman.

Mr. Korman, will you come forward, please?

Will you be sworn, Mr. Korman.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF A. N. KORMAN, STONE RIVER PROJECT, MURFREESBORO, TENN.

Mr. KORMAN. I do, sir.

The CHAIRMAN. Will you be seated and give your full name and address to the reporter?

Mr. KORMAN. A. N. Korman, New Orleans, La.

The CHAIRMAN. You have no attorney?

Mr. KORMAN. No, sir.

The CHAIRMAN. You are from New Orleans?

Mr. KORMAN. Yes, sir.

The CHAIRMAN. You are connected with Mr. Capello?

Mr. KORMAN. Shelby Construction Co.

The CHAIRMAN. Mr. Capello is one of the principal owners?

Mr. KORMAN. He is president of the company.

The CHAIRMAN. You have a project there called Parkchester?

Mr. KORMAN. Yes, sir.

The CHAIRMAN. Today we are going to hear you only in respect to the Stone River projects in Tennessee, but we will hear you later in respect to the Parkchester and other projects in New Orleans, and other places that your company operated.

You are a member of the company?

Mr. KORMAN. Yes, sir.

The CHAIRMAN. I just want the record to show that, because I don't want you to feel that because you are here today representing the Shelby Construction Co. you will not be heard later in respect to the

New Orleans and other projects. Today we are hearing you only in respect to the so-called Stone River project in Murfreesboro, Tenn.

Mr. KORMAN. Yes, sir.

Mr. SIMON. Mr. Korman, is your name spelled, K-o-r-m-a-n?

Mr. KORMAN. K-o-r-m-a-n.

Mr. SIMON. K-o-r-m-a-n.

Mr. KORMAN. Yes, sir.

Mr. SIMON. Edward S. is your first name?

Mr. KORMAN. Alex, A-l-e-x.

Mr. SIMON. Alex Korman?

Mr. KORMAN. Yes, sir.

Mr. SIMON. You are vice president of the Shelby Construction Co.?

Mr. KORMAN. Yes, sir.

Mr. SIMON. Are you acquainted with the Stone River project at Murfreesboro, Tenn.?

Mr. KORMAN. Yes, sir.

Mr. SIMON. Who first discussed that project with you?

Mr. KORMAN. This project was first discussed on the basis of a competitive bid, and we were requested to figure the work and present the bid to the owners.

Mr. SIMON. Who first discussed it with you?

Mr. KORMAN. First discussed it with me, sir; I think it was Mr. McBride.

Mr. SIMON. When did he discuss it with you?

Mr. KORMAN. I would say some time in July or August of 1951, when Mr. McBride visited New Orleans.

Mr. SIMON. Did you ever discuss the project with Mr. Carmack?

Mr. KORMAN. Yes, sir.

Mr. SIMON. When did you first discuss it with Mr. Carmack?

Mr. KORMAN. In the latter part of August 1951.

Mr. SIMON. What did you understand to be the relationship between Mr. Carmack and Mr. McBride?

Mr. KORMAN. I was informed that Mr. Carmack represented him. In what position I don't know, sir.

Mr. SIMON. Represented who?

Mr. KORMAN. Represented Hart & McBride.

Mr. SIMON. Mr. Carmack's name is spelled C-o-r-m-a-c-k?

Mr. KORMAN. I think it is C-a-r-m-a-c-k.

Mr. SIMON. And he lives in Murfreesboro, Tenn.?

Mr. KORMAN. Yes, sir.

Mr. SIMON. What is Mr. McBride's first name, do you know?

Mr. KORMAN. Bolton.

Mr. SIMON. B-o-l-t-o-n?

Mr. KORMAN. Yes, sir.

Mr. SIMON. He is in the firm of Hart & McBride, is he?

Mr. KORMAN. He was. I don't know whether he still is or not.

Mr. SIMON. And Hart & McBride were architects; is that right?

Mr. KORMAN. Yes, sir.

Mr. SIMON. Who did you understand were the stockholders of the Stone River Homes, Inc.?

Mr. KORMAN. I was never fully informed on who the stockholders were. However, I had the impression that Hart & McBride owned the majority of the stock and that there were some others, minority stockholders, whom I did not know.

Mr. SIMON. Were you ever told whether Cormack was the real owner of the stock?

Mr. KORMAN. No, sir; I was not.

Mr. SIMON. But you did negotiate with him, did you?

Mr. KORMAN. Yes, sir; I did.

Mr. SIMON. Did you know what his position was when you negotiated with him?

Mr. KORMAN. No, sir; other than that he informed me that he was representing Hart & McBride. As to his participation in the project, I never did know.

Mr. SIMON. Did you ever see the FHA application?

Mr. KORMAN. No, sir.

Mr. SIMON. Do you know whether FHA finally did issue a commitment under section 803 of the Housing Act?

Mr. KORMAN. Yes, sir.

Mr. SIMON. And your deal with Stone River was conditioned upon such a commitment being issued, wasn't it?

Mr. KORMAN. No, sir. We were brought into the picture some considerable time after the commitment had been issued.

Mr. SIMON. After the commitment had been issued?

Mr. KORMAN. Yes, sir.

Mr. SIMON. What was the amount of the commitment, Mr. Korman?

Mr. KORMAN. \$4,819,700.

Mr. SIMON. At what price did you agree to construct the building called for by that commitment?

Mr. KORMAN. We entered into a lump-sum contract with them for \$4,486,672.

Mr. SIMON. \$4,486,000?

Mr. KORMAN. \$672.

Mr. SIMON. To build the building?

Mr. KORMAN. To build the buildings and our contract included also furnishing the land for the project.

Mr. SIMON. By furnishing the land, do you mean that you were to buy the land from the previous owners?

Mr. KORMAN. Yes, sir.

Mr. SIMON. Then did your contract call for you to in effect make a gift of the land to Stone River Homes?

Mr. KORMAN. That is right, sir.

The CHAIRMAN. What was that again?

Mr. KORMAN. In our contract, we were to provide, furnish the land for the corporation, on which the buildings were to be built.

The CHAIRMAN. You, the builder?

Mr. KORMAN. We were to buy the land and furnish it to the corporation.

The CHAIRMAN. You did buy the land?

Mr. KORMAN. We did buy the land and did furnish it to the corporation, and it was included in the minutes of the corporation which were presented to FHA at the closing.

Mr. SIMON. Do you know whether FHA was told that your contract for the construction of this building also included an obligation on the part of your company to buy the land and make a gift of it to the company?

Mr. KORMAN. Yes, sir.

It is spread in the minutes of the corporation, which were presented to FHA at the closing of the mortgage loan.

Mr. SIMON. How much did you pay for the land?

Mr. KORMAN. Originally, we contracted to buy the land and some plans and specifications that were involved for \$319,000. There was a penalty clause involved where we had undertaken to build this project in a period of 6 months.

We ran into some severe weather and some other structural conditions which exposed us to the full effects of the penalty, so subsequent to that, in order to arrive at a fixed sum of money that we would have to pay, so we would know which way we were going, the contract was amended, and we agreed to pay them a sum of money which finally resulted in \$410,241.

Mr. SIMON. Who did you agree to pay the \$410,000 to?

Mr. KORMAN. To Hart & McBride.

Mr. SIMON. Let me see if I get this straight:

Stone River Homes Corp. had a commitment from FHA for \$4,819,000?

Mr. KORMAN. That is right, sir.

Mr. SIMON. And out of that mortgage you agreed to build the building for \$4,486,000; is that right?

Mr. KORMAN. Yes, sir, and also—

Mr. SIMON. In addition you agreed to buy the land and give it to the company?

Mr. KORMAN. Yes, sir.

Mr. SIMON. In addition, you agreed that if it took you longer to build the building than was contemplated, you would pay a penalty, not to the corporation who was building the building, but to Hart & McBride; is that correct?

Mr. KORMAN. Yes, sir.

The penalty was to Hart & McBride, I believe.

Mr. SIMON. Do you know whether they were then stockholders of the company?

Mr. KORMAN. I believe they were; yes, sir.

Mr. SIMON. Who got this \$410,000?

Mr. KORMAN. Our records indicate that Hart & McBride were paid a portion of the money—

Mr. SIMON. How much?

Mr. KORMAN. \$95,000, and the balance of it went to the First American National Bank of Nashville, as assignee of Hart & McBride.

Mr. SIMON. Do you know who that \$315,000 went to?

Mr. KORMAN. Yes, sir.

We paid it—made a check payable to the First American National Bank and Hart & McBride.

Mr. SIMON. Could you know who the money was ultimately disbursed to?

Mr. KORMAN. No, sir, that I do not.

Mr. SIMON. Do you know how much the land cost former owners?

Mr. KORMAN. Yes, I do.

Mr. SIMON. How?

Mr. KORMAN. My knowledge is indirect.

I didn't have it from anyone. I just picked it up. My information is the land cost right around \$60,000.

Mr. SIMON. \$60,000?

Mr. KORMAN. Yes, sir.

Mr. SIMON. So they bought the land for \$60,000 and you bought it from them for either \$319,000 or \$410,000, depending on which figure you take.

Mr. KORMAN. That is right.

Mr. SIMON. You gave that land to the corporation as a gift?

Mr. KORMAN. Yes, sir.

Mr. SIMON. I take it this was an arm's length deal, wasn't it?

Mr. KORMAN. Absolutely.

Mr. SIMON. In spite of the fact you were going to buy the land from them and make it as a gift to the corporation, you still entered into the venture to make a profit?

Mr. KORMAN. Yes, sir.

Mr. SIMON. Did you end up making a profit?

Mr. KORMAN. A little profit; yes, sir.

Mr. SIMON. How much was your profit?

Mr. KORMAN. Our profit was \$14,000.

The CHAIRMAN. \$14,000?

Mr. KORMAN. Yes, sir.

The CHAIRMAN. As the builder of the project?

Mr. KORMAN. Yes, sir.

The CHAIRMAN. Had you not given them the land that profit would have been how much?

Mr. KORMAN. Well, we had—had we not had to give them the land?

The CHAIRMAN. Had they furnished the land, which is normal for a builder, you would have made \$300,000?

Mr. SIMON. You would have made an additional \$400,000?

Mr. KORMAN. That is right.

The CHAIRMAN. Why did you have to give it to them?

Mr. KORMAN. That is the basis on which they presented the proposition to us.

In other words, we were completing some work and all of our men were becoming footloose and we had to place them somewhere.

We had to have a job.

Mr. SIMON. Did I ask you whether you had ever seen the FHA application?

Mr. KORMAN. Yes, sir.

Mr. SIMON. You have seen it?

Mr. KORMAN. You asked me that. My answer was I never had.

Mr. SIMON. Did your lump-sum price include a builders' fee?

Mr. KORMAN. No, sir; it did not.

Mr. SIMON. Was the builders' fee paid you in addition to the \$4 million?

Mr. KORMAN. No, sir.

Mr. SIMON. It included what you hoped was a builders' fee?

Mr. KORMAN. That is right.

Mr. SIMON. It turned out you didn't make very much but you had contemplated it in your builders' fee?

Mr. KORMAN. Yes, sir. We contemplated making a profit on the job.

Mr. SIMON. Did you also have to furnish the plans and specifications?

Mr. KORMAN. No, sir.

Mr. SIMON. Didn't you buy those from Hart & McBride?

Mr. KORMAN. Hart & McBride were the architects and they furnished the plans and specifications.

Mr. SIMON. Was that included in your \$319,000?

Mr. KORMAN. No, sir; not exactly.

Mr. SIMON. Were they paid an additional sum for the plans and specifications?

Mr. KORMAN. Not to my knowledge, no, sir.

The CHAIRMAN. You wouldn't know? If they were you would know it?

Mr. KORMAN. If they had paid it I would know it.

The CHAIRMAN. Is there any reason why anybody else should pay it?

Mr. KORMAN. I can't think of any reason, no, sir.

Mr. SIMON. We have been told the real stockholder of Stone River Homes was Edward Carmack and the stock stood in the name of Hart & McBride only because of political problems of Mr. Carmack. Had you ever heard that?

Mr. KORMAN. I don't think so; no, sir. I never have. Mr. Carmack is a prominent man in Tennessee, and I don't know what his political affiliations are or didn't take any interest in them.

Mr. SIMON. Just what connection did you think he had with this project?

Mr. KORMAN. As I said before, I didn't know, sir. He set out as the representative of Hart & McBride. It wasn't—I found out he did have an interest in it.

Mr. SIMON. What interest did you find out he had?

Mr. KORMAN. That was a considerable length of time after the job was under construction.

Mr. SIMON. What interest did you later find out he had?

Mr. KORMAN. I found out he had purchased an interest from a Mr. Holt.

Mr. SIMON. Mr. Holt?

Mr. KORMAN. Yes, sir.

Mr. SIMON. What interest had he purchased from Mr. Holt?

Mr. KORMAN. Mr. Holt was the original contractor on this particular job, and as I recall, Mr. Holt had somewhere around a 12-percent interest in the job.

Mr. SIMON. In the job or in the land?

Mr. KORMAN. Well, in the land then I would say.

Mr. SIMON. And he paid one-twelfth of that \$60,000; is that correct?

Mr. KORMAN. I don't know, sir. I don't know what part he paid.

Mr. SIMON. Do you know what Mr. Carmack paid Mr. Holt for his interest in the project?

Mr. KORMAN. Yes, I do. I heard that that he made \$119,000.

Mr. SIMON. And that \$119,000 was part of the \$319,000 you paid, wasn't it?

Mr. KORMAN. That is right.

Mr. SIMON. So none of Mr. Carmack's own money went into buying out Mr. Holt; is that correct?

Mr. KORMAN. Well, I wouldn't say that because I don't know how Mr. Carmack handled his money, sir.

Mr. SIMON. You do know the money, the \$119,000 that was paid to Mr. Holt, came out of your \$319,000?

Mr. KORMAN. That I know. I know that I paid Hart & McBride \$119,000.

Now, I would hesitate to say whether Mr. Carmack paid this particular \$119,000 to Mr. Holt or not. I really don't know.

Mr. SIMON. Did you know that Mr. Carmack personally got a \$20,000 kickback out of that \$119,000?

Mr. KORMAN. No, sir; I did not.

Mr. SIMON. You didn't know he ended up getting \$20,000 of that money?

Mr. KORMAN. No, sir.

Mr. SIMON. Do you know anything more about this project other than that your company, for an amount which was \$333,000 less than the FHA commitment, agreed to bill the building, do all that was required and furnish the land in addition?

Mr. KORMAN. We also agreed to pay all finance expenses, interest, title expense and all other fees involved in the construction of the job for the \$333,000.

Mr. SIMON. Then, in substance, you got the full amount of the FHA commitment?

Mr. KORMAN. Yes, sir.

Mr. SIMON. And you agreed to build the building and pay all the financing charges, interest, taxes, and everything else and give them the land in addition?

Mr. KORMAN. That is exactly right, sir.

Mr. SIMON. What were the stockholders to put into the project?

Mr. KORMAN. They put in \$73,000.

Mr. SIMON. Who put in \$73,000?

Mr. KORMAN. I believe it was Hart & McBride.

Mr. SIMON. What was that for?

Mr. KORMAN. That was for working capital that was required under their FHA commitment.

Mr. SIMON. They got it back, didn't they?

Mr. KORMAN. I don't know whether they did or not.

Mr. SIMON. Didn't you pay all the obligations in connection with the construction?

Mr. KORMAN. Yes, sir, in connection with the construction, but that working capital was not for construction. That was for the operation of the company after construction had been completed.

Mr. SIMON. You mean the operation of the building after it was all completed?

Mr. KORMAN. That is right.

Mr. SIMON. Do you know whether Mr. Carmack put in any of that money?

Mr. KORMAN. No, sir, I do not.

Mr. SIMON. Do you know whether it was possible to rent all of these apartments when the building was finished?

Mr. KORMAN. No, sir, I don't know.

The CHAIRMAN. How many apartments were there?

Mr. KORMAN. 600.

The CHAIRMAN. This was not Government-owned land?

Mr. SIMON. It was title VIII, Wherry Act.

The CHAIRMAN. Is it near an air base?

Mr. KORMAN. Yes, sir. It is near an air base, Sewart Air Force Base, in Smyrna, Tenn.

The CHAIRMAN. Did you compete for this project with other companies?

Mr. KORMAN. Yes, sir.

The CHAIRMAN. You were the lowest bidder?

Mr. KORMAN. Yes, sir, we were.

The CHAIRMAN. Could you remember how many companies competed for the privilege of building this project?

Mr. KORMAN. In addition to the original contractor, which was W. F. Holt & Son Co.—

Mr. SIMON. W. F. who?

Mr. KORMAN. W. F. Holt & Son, I believe, is the proper name of the company.

The CHAIRMAN. Where are they?

Mr. KORMAN. Nashville, Tenn.

Mr. SIMON. Holt was originally interested in the company and sold out through Carmack to you.

Mr. KORMAN. Yes, sir.

Mr. SIMON. You didn't in effect compete with him, did you?

Mr. KORMAN. In effect, we did.

Mr. SIMON. Wasn't he out of the project when you got in?

Mr. KORMAN. No, sir. When the competitive bids were let, all of the bidders had to meet Mr. Holt's price in order to get the job. There was also Algemon Blair, which is a sizable construction company from Alabama who bid on this job.

Mr. SIMON. Was your contract awarded on the basis of opening sealed competitive bids, or their negotiating with each of you and getting the best deal out of you?

Mr. KORMAN. By negotiating with each of us.

The CHAIRMAN. I think that is all for the moment, if you will stand by.

The next witness will be Mr. Robert Lassiter. Mr. Lassiter, will you please be sworn in?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF ROBERT LASSITER, STONE RIVER PROJECT,
MURFREESBORO, TENN.**

Mr. LASSITER. Yes, sir.

The CHAIRMAN. Please give your name to the reporter, please.

Mr. LASSITER. Robert Lassiter, L-a-s-s-i-t-e-r, Murfreesboro, Tenn.

Mr. SIMON. What is your business, Mr. Lassiter?

Mr. LASSITER. At the present time, I represent the Nashville Banner in Murfreesboro and also am in the advertising business which I operate myself.

Until last September, I was a newspaper editor for 25 years.

Mr. SIMON. What newspaper were you editor of?

Mr. LASSITER. Rutherford Courier in Murfreesboro, twice a week.

Mr. SIMON. Are you acquainted with the Stone River Homes project?

Mr. LASSITER. Yes, sir.

Mr. SIMON. Where is that located?

Mr. LASSITER. It is located on the west or back side of Sewart Air Force Base.

Mr. SIMON. Is that also sometimes known as Smyrna?

Mr. LASSITER. No; Smyrna is on the opposite side of the airbase on the highway.

Mr. SIMON. That is another town?

Mr. LASSITER. It is a town of about 1,500.

Mr. SIMON. How do you spell Smyrna?

Mr. LASSITER. S-m-y-r-n-a.

Mr. SIMON. When did you first become interested in the Stone River project?

Mr. LASSITER. It goes back 2 or 3 years.

I knew of the negotiations that were in progress for building of Wherry Act housing projects somewhere near Sewart Air Force Base.

That goes 'way back to, I would say, 1949 or 1950.

The CHAIRMAN. It isn't clear to me when this project was started; what year?

Mr. LASSITER. I believe it was started in September of 1951, sometime along in that time.

The CHAIRMAN. September of 1951. I see.

Mr. SIMON. The FHA commitment, Senator, was issued June 29, 1951.

Mr. LASSITER, what was the origin of your interest in the project?

Mr. LASSITER. Primarily, as a newspaperman. It was my job to report everything that happened of interest in our county, and that was the biggest building project that had ever taken place in the county.

Mr. SIMON. Did you ever have occasion to check the revenue stamps on the deed to find out what these people paid for the land?

Mr. LASSITER. Yes, sir.

Mr. SIMON. What was the consideration as evidenced by the revenue stamps?

Mr. LASSITER. I am not sure of the date but in September, 19—I believe in September 1950, sometime approximately at that time, a deed to 384 acres of land was filed in the name of Jessie Huggins 2d, trustee; it did not name the owners.

The revenue stamps—I believe 2 deeds, not 1—I believe the revenue stamps on the 2 deeds—I have the figure here but this is approximately right—were \$59.

Mr. SIMON. \$59?

Mr. LASSITER. Yes, and the rate is \$1.10 a thousand.

It was approximately \$54,000 that was paid for the 384 acres of land.

Mr. SIMON. Do you know how many of those acres were used to build this project?

Mr. LASSITER. 120 acres.

Mr. SIMON. 120 of the 384 acres?

Mr. LASSITER. Yes, sir.

That is according to the public records.

Mr. SIMON. Was there anything in the public records that you know of that indicates the interest that Mr. Carmack had in the project?

Mr. LASSITER. I say the original deed to Mr. Huggins as trustee was filed on, I believe, in September, 1951. I have it here, if you would like for me to look it up, then later, sometime the following year, I believe—I could find this—at the time that the FHA mortgage was put on record, the same day, I believe, in our courthouse, 3 deeds were filed transferring title to the 120 acres.

Now, the first deed—I mean in those deeds for the first time, the persons who composed the trusteeship were named.

Mr. SIMON. Who were the persons who composed the trusteeship?

Mr. LASSITER. I cannot say for sure I can give it offhand. I can tell you most of them. There was Jessie Huggins 2d.

The CHAIRMAN. How do you spell that?

Mr. LASSITER. Huggins, H-u-g-g-i-n-s.

The CHAIRMAN. Who is he?

Mr. LASSITER. He is a Murfreesboro attorney. May I refer to my notes?

The CHAIRMAN. Yes, sir. Take your time.

Mr. LASSITER. It was Jessie Huggins 2d, he is a Murfreesboro lawyer; Mrs. Florence B. Huggins, his wife; Mrs. Annie B. Edwards. She is the wife of our county judge.

The CHAIRMAN. The wife of your county judge?

Mr. LASSITER. Yes, sir, Mrs. W. S. Barham.

The CHAIRMAN. Who is she?

Mr. LASSITER. She is a sister of Huggins; Edward W. Carmack.

The CHAIRMAN. Edward W. Carmack.

Mr. LASSITER. Yes.

The CHAIRMAN. Who is he?

Mr. LASSITER. He is the Carmack who has been mentioned here. He lives in Murfreesboro.

The CHAIRMAN. What is his business?

Mr. LASSITER. I don't know, sir.

Mr. SIMON. Is he a man of substantial means in the community?

Mr. LASSITER. No, sir. He has not been. He was educated as a lawyer, I know that.

The CHAIRMAN. Did he ever run for public office?

Mr. LASSITER. He ran for United States Senator against Senator McKellar.

The CHAIRMAN. In the Democratic primary?

Mr. LASSITER. In the Democratic primary in 1946—well—

Mr. SIMON. Is there anything in the public records you know of indicating his financial responsibility?

Mr. LASSITER. You mean as of today?

Mr. SIMON. No. As of any time that would indicate a starting point.

Mr. LASSITER. In a lawsuit that he filed in the early 1940's I cannot state definitely the title of the lawsuit, he signed what is commonly known as a pauper's oath.

It is an oath in which the man who is filing the suit says he does not have means to pay the costs of the suit.

Mr. SIMON. Did you personally see that?

Mr. LASSITER. I have seen that oath in the records of the Rutherford County Chancery Court.

Mr. SIMON. What court is that?

Mr. LASSITER. The clerk in chancery court.

Mr. SIMON. What court was that?

Mr. LASSITER. Rutherford County Chancery Court. That is the equity court in Tennessee.

Mr. SIMON. And that is the same Edward Carmack that is interested in this Stone River project?

Mr. LASSITER. Yes, sir. We—the reason I know that, we reproduced that in an advertisement in our newspaper in the course of that campaign.

Mr. SIMON. Who were the other people in the deed?

Mr. LASSITER. Jack P. Maney.

The CHAIRMAN. Who was he?

Mr. LASSITER. He is a friend of mine, and a friend of Mr. Huggins, who now lives in San Francisco, Calif., and who so far as I know has no connection with this except that Mr. Huggins, who handled his local business affairs had his power of attorney.

Mr. SIMON. Who else?

Mr. LASSITER. Joseph W. Hart.

The CHAIRMAN. Hart, H-a-r-t?

Mr. LASSITER. That is right.

The CHAIRMAN. What business is he?

Mr. LASSITER. He is a Nashville architect and I am not sure, I believe he married a sister of Mrs. Carmack.

Mr. SIMON. Anybody else now?

Mr. LASSITER. Bolten McBride.

Mr. SIMON. That is Mr. Hart's partner?

Mr. LASSITER. Yes, sir.

He was at that time. I have heard since but I do not know that they have severed their association.

Mr. SIMON. Anybody else?

Mr. LASSITER. I am not positive, but the Holts were somewhere in one of these deeds—the Holts had an interest. I am not sure where it was. There were three deeds filed the same day that the FHA mortgage was filed. One deed transferred the 120 acres from Jessie Huggins as trustee and these people, to Jean Justice, as trustee, whom I don't know.

The CHAIRMAN. Who is Jean Justice?

Mr. LASSITER. I don't know. I heard she was a secretary in Nashville. That is all I know.

Mr. SIMON. She is Mr. Hart's secretary?

You don't know that?

Mr. LASSITER. I don't know. Another deed transferred from Jean Justice to—this deed transferred 120 acres to Jean Justice, trustee. Another deed transferred the same 120 acres from Jean Justice, trustee to Shelby Construction Co. and another deed transferred the same 120 acres from Shelby Construction Co. to Stone River Homes, Inc., all deeds were dated the same day, a tax of \$110 was paid on each deed shown the amount of the transaction; payment for the 120 acres would have been \$100,000 according to the rate the revenue stamps are paid for.

Mr. SIMON. That is the 10 acres on which this Stone River project is located?

Mr. LASSITER. Yes, sir, to the best of my knowledge.

Mr. SIMON. Mr. Lassiter, when the project was completed, Do you know whether there was a rush of prospective tenants to occupy the project?

Mr. LASSITER. Yes, sir. I know there was not a rush.

Mr. SIMON. What part did your newspaper play in that or how did you become interested in that?

Mr. LASSITER. I believe it was in either the late summer or the early fall of 19—that would have been 1952. I believe the first units of the houses were to be finished along in June or July, that period and over

the next 7 months we began to receive complaints, principally from owners of rental property, and owners of property.

Mr. SIMON. You say "We?"

Mr. LASSITER. The newspaper.

Mr. SIMON. The newspaper received complaints?

Mr. LASSITER. Yes.

Mr. SIMON. What were those complaints?

Mr. LASSITER. People saying the tenants were moving out and stating they preferred to stay where they were because they had been ordered to move, or forced to move into the Wherry project. We ran stories to that effect.

May I make a statement, that everything I have recounted, was printed in our newspaper as of that time and I can always check the dates by looking at the files of the paper.

Mr. SIMON. Was there any other basis for the complaints from these homeowners?

Mr. LASSITER. Yes. It created a situation of considerable importance in our town. There were several hundred vacant apartments and houses at one time there and we carried stories about it, but it was denied by officials at the base, who said that the people were not being forced in it. At that time I sought to get from the Air Force a definite statement of the Air Force policy on occupancy of Stone River homes—of any Wherry project. I had our representative in Washington check with the Air Force. He talked to Mr.—a Maj. R. A. Bynum, and he informed me that Major Bynum said that after looking around the Pentagon all afternoon he could find no statement of policy; that this was the first time that any situation like this had come up.

Mr. SIMON. Do you have any evidence, Mr. Lassiter, of orders to the Air Force people to move into this project?

Mr. LASSITER. Yes. I have a copy of an order that was sent to us, anonymously through the mail, to the newspaper.

Mr. SIMON. May we see it, please?

Mr. LASSITER. Yes.

Mr. SIMON. This order is dated December 19, 1952, and it is signed by Jesse L. Trent, captain, United States Air Force, commanding. Do you know who Captain Trent was?

Mr. LASSITER. No, sir. I do not even know that the order is bona fide, but it has all the appearance of being so.

Mr. SIMON. Did you run that order in your paper?

Mr. LASSITER. We ran it all except the names, sir.

Mr. SIMON. Did the commanding officer of the airbase ever make a statement about it afterward?

Mr. LASSITER. He made the statement several times.

I do not know whether he made a statement in direct regard to that particular order. I simply do not recall. He did state several times—he told me personally when I called him and talked to him about it that men were not being ordered to move in, but that he wanted it understood that he was telling his men that those who did not move in were not playing ball with the Air Force. He ran statements in the Sewart Air Force Base, the troop paper which said that he expected all married men to submerge their minor preferences, I believe it was, and move into the airbase.

Mr. SIMON. By "move into the airbase"—

Mr. LASSITER. I mean into the Wherry project, and then in the middle of January 1953, I received a telephone call from a sergeant at the airbase, who asked me, he said "You have been wanting to see—" he said "Colonel Prindle denies men are being ordered to move into the homes, the Wherry project. He said "Do you want to see an order posted on the bulletin board," and I told him that I did. He said, "Well, if you will come to the main gate, I will see that you are admitted, and we will direct you where to go." I got Mr. Paul Page, who is State news editor of the Nashville Banner, to go with me. Mr. Page and I went to the main gate, and the sergeant who called me was a sergeant in charge of the main gate. He told us where to go and we went—I am not familiar with military terms—whether it was the headquarters of the military police, but we went in and just looked at the bulletin board, and there was a letter on the bulletin board from Colonel Prindle, who was commanding officer of the base, addressed to, I am not sure whether it was addressed to all units, but addressed to the commanding officer of their particular unit, and as I recall Colonel Prindle in his letter merely quoted a letter that he had received from, I believe it was General Douglass, and General Douglass in turn in his letter quoted a letter from General Cannon. Just a moment, let me check that.

Mr. SIMON. Do you know General Douglass' first name?

Mr. LASSITER. No, sir. It is possible I have General Douglass and General Cannon reversed in the order of their superiority.

Mr. SIMON. Is Cannon C-a-n-n-o-n?

Mr. LASSITER. C-a-n-n-o-n, according to my notes here. The substance of this letter was that General Cannon stated that Colonel Prindle's timetable for bringing the housing project up to 97 percent of occupancy by midspring was not acceptable, and that Colonel Prindle—that the airbase, I don't know exactly how it was phrased—were instructed to bring the housing project up to 97 percent of occupancy by February 1. That was January 23 or 24. And below that letter was a unit order, similar to the one which I just handed you, which ordered men to move into the housing project by February 1, or move into the bachelor officer's quarters on the base, in substance now. The reason I say it is in substance, just as we were reading it, the public information officer or the press officer of the base came into the room where we were. We asked him if it would be all right for us to copy that order. He went over and took it off the bulletin board, and put it in his pocket and said "Let us go see Colonel Prindle." So we went to see Colonel Prindle and we talked with Colonel Prindle for—and with a Colonel Hipler, I believe it was—for probably an hour in his office.

Colonel Prindle would not let us see the letter or orders again. He told us in substance at that time that an overenthusiastic subordinate had perhaps issued some orders but that he had ordered them rescinded.

Mr. SIMON. Thank you, sir.

The CHAIRMAN. No more questions. Thank you very much.

Our next witness will be Colonel Prindle, Col. Hoyt Prindle.

Colonel, will you be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

STATEMENT OF COL. HOYT PRINDLE, USAF, ACCOMPANIED BY
GEORGE S. ROBINSON, DEPUTY SPECIAL ASSISTANT FOR IN-
STALLATIONS TO THE SECRETARY OF THE AIR FORCE, AND
RICHARD TALLEY, ASSISTANT CHIEF OF THE FAMILY
HOUSING GROUP

Colonel PRINDLE. I do.

Mr. SIMON. Thank you, sir. Will you be seated?

Colonel, you are the commander of the Sewart Airbase?

Colonel PRINDLE. No, sir. I was in command at the time you are talking about.

The CHAIRMAN. You were commander the time that is under discussion today?

Colonel PRINDLE. Yes, sir.

The CHAIRMAN. Will you identify yourself?

Mr. ROBINSON. I am George Robinson, Deputy Special Assistant to the Secretary of the Air Force for Installations. It is as part of my function I have been assigned the supervision recently of the family housing program and Mr. Richard Talley is also here. He is Chief of the Wherry Housing Section, I believe it is called, in the family housing group of the Staff and has been associated with the Wherry program for quite some time.

Mr. SIMON. I show you what purports to be an Air Force order dated December 19, 1952, signed by Captain Trent. Have you ever seen that?

Colonel PRINDLE. No. I have not seen this particular document.

Mr. SIMON. Do you know Captain Trent?

Colonel PRINDLE. Yes, I did.

Mr. SIMON. When did you get to Sewart Air Force Base?

Colonel PRINDLE. I arrived at Sewart Air Force Base I believe it was in September of 1948.

Mr. SIMON. And when did you leave?

Colonel PRINDLE. I left in June of 1954.

Mr. SIMON. Were you the commanding officer of the base during that period?

Colonel PRINDLE. I was, with the exception of approximately 3½ months in Japan and Korea and several other periods of a month to 6 weeks when I was absent on maneuvers in various parts of the country.

The CHAIRMAN. Were you there when these houses were built?

Colonel PRINDLE. Yes. I was there most of the time.

The CHAIRMAN. Were these individual homes?

Colonel PRINDLE. I do not know what you mean by individual homes. Some of them are duplexes, some are single units, some have four.

The CHAIRMAN. How many units were involved?

Colonel PRINDLE. There were 600 units.

The CHAIRMAN. Do you mean that it would house 600 families?

Colonel PRINDLE. That is correct.

The CHAIRMAN. You were there during the period they were constructed?

Colonel PRINDLE. Yes, most of the time.

The CHAIRMAN. How close to the airbase are they?

Colonel PRINDLE. In the plot adjacent to the airbase, near the main built-up area of the base, across the street from headquarters building.

The CHAIRMAN. Do you happen to know at the moment how many of them are empty?

Colonel PRINDLE. I believe none.

The CHAIRMAN. Were there any empty prior to your departure?

Colonel PRINDLE. No. There was always a waiting list during the past year or so. There was a waiting list of people desiring to move into the units.

Mr. SIMON. When were the buildings completed, Colonel?

Colonel PRINDLE. It has been a couple of years ago and I will try to give you the best of my memory without reference to any documents. I believe the first units were completed in the summer, about June, I believe, of 1952.

Mr. SIMON. Do you know when the last of them were completed?

Colonel PRINDLE. I believe the spring of 1953.

The CHAIRMAN. How long have you been away from there?

Colonel PRINDLE. How long have I been away from there?

The CHAIRMAN. Yes.

Colonel PRINDLE. Since the latter part of June.

The CHAIRMAN. Of this year?

Colonel PRINDLE. Yes.

The CHAIRMAN. That is less than a month ago?

Colonel PRINDLE. Yes.

The CHAIRMAN. You are assigned to duty elsewhere?

Colonel PRINDLE. I am assigned to 18th Air Force headquarters.

The CHAIRMAN. When you left there a month ago, your testimony is all the units were occupied?

Colonel PRINDLE. That is right.

Mr. SIMON. Do you know whether in November, November 30, 1952, there were 96 vacant apartments?

Colonel PRINDLE. I wouldn't know that without reference to the record.

Mr. SIMON. You would't know on December 31, 1952, a month later, there were still 96 vacant apartments?

Colonel PRINDLE. I couldn't confirm that. I know there were some vacancies. Those figures can be obtained from the housing headquarters.

Mr. SIMON. Do you know a Mrs. Frankie S. Harrison?

Colonel PRINDLE. Yes. I believe she is the manager of Stone River Homes.

Mr. SIMON. I have a letter here from her stating the facts I have just given you.

Referring to that order of Captain Trent, was he under your command in December 1951?

Colonel PRINDLE. I believe he was. I remember he was.

Mr. SIMON. Are you familiar with his signature?

Colonel PRINDLE. Not particularly.

Mr. SIMON. Would you look at the order, Colonel, and tell us whether you think it bears his signature or whether you think it is a forgery?

Colonel PRINDLE. I wouldn't be qualified to identify the signature this long afterward.

Mr. SIMON. I think you will find if you read the order, Colonel, that it directs Air Force personnel at Sewart Air Base, with certain exceptions, to move into this Stone River Homes project. Do you know whether at or about the date that order bears, Captain Trent issued such an order?

Colonel PRINDLE. No, I did not know of the existence of this order, and I would like to add right here, that no one except myself had the authority to order anybody to move on the base.

Mr. SIMON. With or without authority, do you know whether Captain Trent did issue such an order?

Colonel PRINDLE. No, I do not know that he did.

Mr. SIMON. Who is Col. Burt M. Carleton?

Colonel PRINDLE. Colonel Carleton was the commander of the Air Force group at Sewart Air Force Base.

Mr. SIMON. What was his relation to you?

Colonel PRINDLE. The base is manned by the 314th Troop Carrier Wing and that wing is made up of several groups, and those groups are made up of several squadrons and the Air Force Group is the group whose mission is the normal housekeeping, police, communications, and that sort of thing on the base.

Mr. SIMON. Were you the colonel of the Air Group or commanding officer of the Air Group or the base?

Colonel PRINDLE. I was commanding officer of the base.

Mr. SIMON. And Colonel Carleton was commanding officer of the group?

Colonel PRINDLE. That is right, the Air Base Group.

Mr. SIMON. I have an affidavit, which was sent to the chairman of this committee, signed by Bert M. Carleton from the Office of the Secretary of the Air Force this morning and a few sentences of it read as follows:

The responsibility of group commanders to encourage their key personnel to move into Wherry had been a repeated subject at the wing commander's weekly staff meetings. In addition to this, communications had been received from higher headquarters pointing out our responsibility to fill the Wherry Housing to 97 percent. In order to fulfill my portion of this obligation, to the best of my recollection. I issued a written communication to each of my squadron commanders some time during the first 10 days of January 1953. In this communication, as I remember, I stated that I would expect all officers and key personnel to move into Wherry or have made application to move into Wherry by March 1.

Is that in accord with your recollection?

Colonel PRINDLE. That is approximately the way I remember it, yes.

Mr. SIMON. So that while you did not——

The CHAIRMAN. Without objection, we will make the affidavit a part of this record.

(The information referred to follows:)

AFFIDAVIT

STATE OF TENNESSEE,
County of Rutherford, ss:

Personally appeared before me, the undersigned, authority for administering oaths in cases of this character, one Col. Bert M. Carleton, 314th Air Base Group, Sewart Air Force Base, Tenn., who having read article 31, Uniform Code of Military Justice, Manual of Courts Martial, United States, 1951, and his rights thereunder explained to him, and being duly sworn according to law, deposes and says as follows:

"The following statements are true to the best of my memory and belief:

"The Stones River Homes (Wherry project) adjoining Sewart Air Force Base, was completed in the fall of 1952. Upon its completion it was not immediately

filled to capacity. Since the Wherry housing project had been built primarily for military personnel stationed at Sewart Air Force Base, I felt that the Air Force had a moral responsibility to insure occupancy of these units. As a group commander with approximately 600 personnel assigned, it was my responsibility to encourage personnel to move into Wherry units.

"The responsibility of group commanders to encourage their key personnel to move into Wherry had been a repeated subject at the wing commander's weekly staff meetings. In addition to this, communications had been received from higher headquarters pointing out our responsibility to fill the Wherry housing to 97 percent. In order to fulfill my portion of this obligation, to the best of my recollection I issued a written communication to each of my squadron commanders some time during the first 10 days of January 1953. In this communication, as I remember, I stated that I would expect all officers and key personnel to move into Wherry or have made application to move into Wherry by March 1. Certain personnel were exempt from filing applications to move into Wherry, such as those who owned their own homes within a 30 mile radius, and those who would be subject to undue financial hardships. I am sure that I included in this letter a statement which definitely provided for any individual to appeal a move to Wherry or filing an application provided he justified his reasons for not moving into Wherry in writing through command channels to me. To the best of my knowledge, no members of my group moved into Wherry as a result of this letter.

"I departed for Burlington, Vt., on January 12, 1953, for approximately 2 months' temporary duty in connection with the Air Force maneuver "Cold Spot." After I arrived at Burlington, Colonel Prindle, the wing commander, called me and stated that the newspapers had published articles concerning my alleged letter ordering men to move into Wherry. He further state that he had rescinded my letter and had reiterated that no one was being ordered to move into Wherry. In answer to the specific question asked by Major Gagnia of the liaison office concerning a newspaper article which appeared in the Rutherford Courier on February 3, 1953, which quotes a letter signed by a captain, I cannot definitely state that this letter was written by an officer in my group or that it was as a direct result of the letter which I mentioned earlier. Since Colonel Prindle, the 314th Wing commander had rescinded the letter which I had written to my squadron commanders, this communication was removed from the bulletin boards immediately upon its discovery and was destroyed prior to my returning to Sewart Air Force Base in early March of 1953.

"Again referring to the letter which was quoted in the newspaper article of Rutherford Courier on February 3, 1953, upon return to Sewart in March, I contacted my squadron commanders and asked them if they knew who wrote this letter which had been published, and to date I do not know who wrote the letter which was quoted in that article."

Further deponent sayeth not.

BERT M. CARLETON,
Colonel, United States Air Force.

Sworn and subscribed to before me this 21st day of July 1954 at Sewart Air Force Base, Tenn.

GEORGE H. GIBBONS,
Captain, United States Air Force,
Judge Advocate.

Mr. SIMON. While you did not ever order anybody to move into the Wherry project, the Air Force did, shall we say, vigorously encourage them to move in?

Colonel PRINDLE. That would describe it in fairly accurate terms.

Mr. SIMON. Thank you, sir.

Mr. ROBINSON. Mr. Chairman, may I for the sake of making it clear—

The CHAIRMAN. I think we are going to ask you gentlemen some questions. I think I want to make witnesses out of both you gentlemen. Will you both be sworn in?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ROBINSON. I do.

Mr. TALLEY. I do.

Mr. ROBINSON. The other suggestion I have, Mr. Chairman, is that we might make part of the record a statement we have brought with us which indicates what the policy of the Air Force was in this particular connection?

The CHAIRMAN. Will you speak into the microphone, please?

Mr. ROBINSON. What I said was I would like to submit to the committee that copy of the Air Force statement of policy with respect to the occupancy of the Wherry housing project. I think it would be helpful and would perhaps clarify the picture.

The CHAIRMAN. Without objection, your policy statement and all other material you may offer now or later will be placed in the files of the committee.

How many completed Wherry defense housing projects does the Air Corps have in the United States or throughout the world?

Mr. TALLEY. Approximately 106 Wherry projects, at 56 or 57 locations, sir.

The CHAIRMAN. 106 projects within 50——

Mr. TALLEY. Fifty-six or fifty-seven locations.

The CHAIRMAN. Do you get a report each week on the occupancy of those?

Mr. TALLEY. No, sir. We get a report once a month on the occupancy of each of these projects.

The CHAIRMAN. You get a report once a month on the occupancy of each of these projects?

Mr. TALLEY. Yes.

The CHAIRMAN. Do you use a form such as that?

Mr. TALLEY. Yes; then compile it on a larger sheet.

The CHAIRMAN. I wish you would furnish us tomorrow a photostatic copy of the last rental report on each of the 106 projects showing the occupancy of each unit.

Now one other question: all these so-called Wherry or defense housing projects are handled by the Air Corps, that is, on Air Corps installations, is that correct?

Mr. TALLEY. A few of them are built off of the installation but the majority of them——

The CHAIRMAN. You handle them?

Mr. TALLEY. Yes.

The CHAIRMAN. You approve the specifications, you certify whether the project is needed or not. You handle the bids and the construction and you handle the entire operation of the project, is that right?

Mr. TALLEY. That is all done in the headquarters of the Air Force in Washington, sir.

The CHAIRMAN. You handle it all here?

Mr. TALLEY. Yes, sir.

The CHAIRMAN. What you do is decide you want 600 units such as you did at the Sewart Airbase in Tennessee, you direct FHA to insure the mortgage?

Mr. TALLEY. We issue a certificate of necessity, of need for military housing, which is FHA Form 3301, which is signed by the Secretary of the Air Force, and in substance states the number of units that is

needed at that location, and the amount or average monthly rental that the personnel can afford to pay and in addition, states that there is no intention to substantially curtail the activities of the installation, and that the personnel to be expected to be based there can afford to occupy that housing.

The CHAIRMAN. And with that certification from you to the FHA, under the law, they are required, mandated to insure the mortgage?

Mr. TALLEY. This piece of paper makes the project eligible for an FHA title III insurance mortgage.

The CHAIRMAN. Has FHA ever turned you down on a project after you have certified to it on that form and in that manner that you have just read?

Mr. TALLEY. A direct turndown I cannot remember, sir.

The CHAIRMAN. You do not think there has been any or you just cannot remember?

Mr. TALLEY. I do not believe there has been any.

The CHAIRMAN. In other words, it is a mandate to insure the mortgage, is that correct? Do they have a right to turn you down if they want to?

Mr. TALLEY. They have a right to question—they do not have a right to question the number of units but they have a right to question the location of the project, as if the land were faulty and not usable for a housing project.

The CHAIRMAN. You are talking about title to the land?

Mr. TALLEY. They also pass on title to the land, but the physical aspects of the land, if it were swampy, for example, obviously they would not approve a project on that type of land.

The CHAIRMAN. But generally speaking, when you certify on that form that you hold in your hand, they are obligated to insure the mortgage?

Mr. TALLEY. Yes.

The CHAIRMAN. Of course counsel just pointed out that the sponsors must qualify as to equity capital, and so forth. We understand that.

Mr. TALLEY. The normal processing procedures are utilized.

The CHAIRMAN. Those are handled by the FHA.

Now you have 106 such projects in the United States?

Mr. TALLEY. Yes.

The CHAIRMAN. One of them that was testified to here a couple of days ago by Mr. Murchison is Mountain Homes, Idaho.

Mr. TALLEY. Yes.

The CHAIRMAN. Is that one of them?

Mr. TALLEY. That has not started construction yet.

The CHAIRMAN. You have made a commitment to Mr. Murchison?

Mr. TALLEY. The FHA has issued a commitment.

The CHAIRMAN. After you have certified on the forms which you hold in your hand?

Mr. TALLEY. Yes, sir.

The CHAIRMAN. How many projects do you have under construction at the moment that are not finished?

Mr. TALLEY. I do not know offhand. Can I furnish you that tomorrow?

The CHAIRMAN. Would you say 15 or 20?

Mr. TALLEY. The ones that are actually in construction are probably half a dozen.

The CHAIRMAN. That are not finished?

Mr. TALLEY. Yes.

The CHAIRMAN. And among them is Mountain Homes in Idaho, and one in Limestone Airbase in Maine, is that right?

Mr. TALLEY. Yes.

The CHAIRMAN. In other words, there are 2 examples of 8 or 10 or whatever it is that are unfinished.

Just tell us if you can from memory what has been your experience with the occupancy of these units? For example, I notice that on April 2 this project at Sewart out of 600 units, I believe that is what it says here, there were only 29 vacancies?

Mr. TALLEY. Our occupancy of the title VIII units in the entire Air Force program has been close to 99 per cent, over a long period of time. On several projects——

The CHAIRMAN. Say that again, what percentage?

Mr. TALLEY. 99 percent.

The CHAIRMAN. 99 percent occupied?

Mr. TALLEY. Yes.

The CHAIRMAN. You understand we are going to have the Navy and the Army up here for the same sort of questioning. We intended to get them up a little later and you people a little later but since you are here, you gentlemen are the ones that handled this.

Mr. TALLEY. Yes.

The CHAIRMAN. You are the head man so we are doing business with the head people.

Mr. TALLEY. I am in the family housing group.

Since I am here, I would like to say I would like to furnish the committee with factual data on some of these things I am trying to answer from memory.

The CHAIRMAN. You say you have an occupancy of 99 percent?

Mr. TALLEY. Yes. I would like to add to that, that in the initial occupancy of a number of projects we have had some difficulties, I think the type of difficulty you are talking about at Sewart Air Force Base. Now in each of those——

The CHAIRMAN. In other words, as a rule do you have difficulty when the project is first finished, getting people to move out of homes that they formerly lived in into these projects?

Mr. TALLEY. When you put a large number of units, liveable units on the market at one time you have a difficult task in getting them filled up in a short period of time.

The CHAIRMAN. It was brought out yesterday or the day before by Mr. Murchison, who was given the commitment in Mountain Homes that as yet you have not acquired the loan.

The Interior Department, I think, is in the process of transferring that land to the Air Force permanently, because this is a permanent Air Force installation.

Mr. TALLEY. Yes.

The CHAIRMAN. The problem then is sort of a jurisdictional one between the Interior Department who owns the land and the Air Force who owns some land also.

Mr. TALLEY. Yes.

The CHAIRMAN. In other words, it is not a problem of private enterprisers outside?

Mr. TALLEY. Absolutely not.

The CHAIRMAN. It is purely a matter of getting title from the Interior Department?

Mr. TALLEY. To get the title cleared out so the Secretary of the Air Force can execute a lease for a long period of time. That would be a good and valid lease and also would be accepted—

The CHAIRMAN. We had testimony that at Chanute Field, in Illinois, you loaned the builder there \$1 million; is that correct. A direct loan, in order to finish the project?

Mr. TALLEY. That is not correct, sir. Some months ago the builder there did run into financial difficulties and the project closed—construction of the project closed. As I remember we had something less than 200 units finished and occupied out of a total of 800 units. The matter was discussed at great length and the Department of Air Force did loan to the mortgagor corporation—

The CHAIRMAN. That was Mr. Woodner.

Mr. TALLEY. Mr. Woodner was the individual, yes—a sum of \$615,000, to be repaid to the Air Force with 4 percent interest over a period of years.

The CHAIRMAN. What security did you get for the loan?

Mr. TALLEY. We did not get any security. We did get the right to take over the management and to collect the rents, which we are now doing, sir.

Mr. SIMON. FHA had that right before you loaned the money, didn't they?

Mr. TALLEY. That is right.

Mr. ROBINSON. Our position I think is that he is in default on that loan and we have deferred the matter to the Department of Justice.

The CHAIRMAN. He is in default to FHA, not to the Air Force.

Mr. TALLEY. No, sir, he is in default on the \$615,000 loan to the Air Force, not to the FHA.

The CHAIRMAN. He is behind in his payments?

Mr. TALLEY. To the Air Force, but not behind in his payments to the mortgage—FHA insured mortgage.

The CHAIRMAN. You loaned him \$1 million and he reduced it down to \$615,000?

Mr. TALLEY. No, sir, we only loaned him \$615,000.

The CHAIRMAN. So far he has not met the payments?

Mr. TALLEY. He has paid something on it but has not paid all the payments he is supposed to make.

The CHAIRMAN. As a result of that you are now operating the project?

Mr. TALLEY. Yes, sir.

Mr. SIMON. There are two projects there. Does the \$615,000 include both projects?

Mr. TALLEY. Yes, sir, the entire 800 units, which was too large for one mortgage.

The CHAIRMAN. Are all these so-called projects—you have 106 of them—were they all authorized through virtue of sealed competitive bidding? Did they go the lowest qualified bidder?

Mr. TALLEY. We have followed two different procedures in the handling of our title VIII program. In the early days, at the time that

the legislation was enacted by Congress, at each location, such as the Sewart Air Force Base we instructed the commanding officer to furnish any and all contractors or individuals interested in building us a housing project, with the pertinent information so that they could submit to the commanding officer by a specified date all the information that they would include in a proposal to build the housing we needed.

At that time, each proposal would be evaluated at the base level. The commanding officer would forward his recommendations to his major command headquarters, who would forward it into Washington and the final approval was handled in the headquarters of the Air Force in Washington.

The CHAIRMAN. You rather than FHA approved the final contract?

Mr. TALLEY. Yes, sir.

The CHAIRMAN. In other words, the Air Force had picked Mr. Murchison for this area in Idaho and Mr. Muss' companies in Dayton, Ohio, on that project?

Mr. TALLEY. Mr. Senator, may I give you the second method which has been in operation for over 2 years now?

After the Wherry Act was amended, and sometime in the latter part of 1950, there was established so-called new procedure, and that was the procedure where the military department concerned, being the Air Force, hires an architect engineer to develop the plans and specifications for the project, in close cooperation with the FHA, to make sure that the FHA requirements are met and after FHA has approved the plans and specifications and the Air Force has approved the plans and specifications they are then advertised to any and all builders throughout the country who are interested in constructing that project.

The CHAIRMAN. You do advertise it?

Mr. TALLEY. Advertise it for bid. There is a one-bid figure given which is a replacement cost figure and it in substance is in competition with the FHA estimated replacement cost.

The Centex Construction Co. and Mr. Murchison were the bidders that got the job on the Mountain Home Air Force Base.

The CHAIRMAN. They were the low bidders?

Mr. TALLEY. As I recall they were the second low bidders. The lowest bidder could not qualify for the financial responsibilities that were required to undertake and complete such a project.

The CHAIRMAN. How are the architects and engineers picked?

Mr. TALLEY. The architect-engineers are picked—we try to pick them within the local community, or in the area in which the project is to be constructed.

The CHAIRMAN. Will you furnish us the names and addresses of all the architect engineers that you have used to date?

Mr. TALLEY. Yes.

The CHAIRMAN. And also the names and addresses of all the builders or those to whom you awarded each contract—each of these 106 contracts, and the total amount of the project and any other pertinent information you think we ought to have on the subject?

Mr. ROBINSON. We will be happy to do that, Mr. Chairman.

The CHAIRMAN. Has this so-called Wherry defense housing—military housing—been satisfactory from your standpoint?

Mr. TALLEY. From the standpoint of the Air Force, the Wherry housing, military housing, required by the national housing program

has afforded the Air Force many thousands of units that are much needed units.

The CHAIRMAN. You are going to give us the architect-engineers, the names of them on all of your 106 projects and also the contractors on all of your 106 projects?

Mr. TALLEY. Yes.

The CHAIRMAN. With the FHA commitments, and also give us the type of bid it was, whether it was a negotiated or sealed bid and also we would like to have as a part of that information, whether it was not awarded the lowest bidder and awarded the next lowest bidder, the reason for so doing.

Mr. ROBINSON. If I may, Mr. Chairman, I would like to make it clear that the Wherry does not satisfy all the needs of the Air Force, so far—

The CHAIRMAN. Does not what?

Mr. ROBINSON. Does not satisfy the entire need of the Air Force for dependent family housing.

The CHAIRMAN. Then your testimony is that—I hand you this—I am presuming you are familiar with it—your testimony is that on April 2, 1952, there were only 29 vacancies out of a total of 600 units at Sewart Airbase, is that correct?

Mr. TALLEY. If this is a copy of the report in our office, I would say that is correct, yes.

The CHAIRMAN. You ought to know.

Mr. TALLEY. I think it would be a copy.

The CHAIRMAN. Read the letter. You are the one that knows. We do not.

Mr. TALLEY. Mr. Senator, I do not know that this paper here which is purported to be a copy is an exact copy. I will be glad to furnish you a copy of the paper we have.

The CHAIRMAN. Suppose you take that with you and send it back tomorrow. We will put it in the record. In other words, what we want to know at the moment is, within the last 30 days what the vacancy rate was of these 600 projects.

Mr. TALLEY. Yes, sir.

The CHAIRMAN. That report supposedly says 29 out of 600. You say you cannot identify that as being a fact, is that correct?

Mr. TALLEY. Without verifying it.

The CHAIRMAN. You will check your records and notify us tomorrow.

Mr. ROBINSON. We will do that.

Mr. SIMON. I have three questions I would like to ask. I am sorry but I did not get your name when you gave it first.

Mr. TALLEY. Talley.

Mr. SIMON. Your first name?

Mr. TALLEY. Richard.

Mr. SIMON. You are in charge of Wherry housing?

Mr. TALLEY. I am not in charge of that.

Colonel McCord is chief of the family housing group and I am one of his assistants.

Mr. SIMON. Is the persuasion that was required at Stone River to get the project filled up as the colonel testified the normal thing or was it unusual to Stone River?

Mr. TALLEY. It is unusual. That was not our policy. The Secretary of the Air Force when he certified the need of these houses created a moral obligation on the part of the Air Force to insist on having good management.

Mr. SIMON. What I meant was had it been customary in all of these projects to have to use that persuasion to fill it up or was this an unusual case in this respect?

Mr. TALLEY. It was some time in 1952 that we adopted that policy, sir. The program has been running since 1949 but constantly since 1952 we have had that policy.

Mr. SIMON. Have you had to invoke it constantly?

Mr. TALLEY. In a few cases, sir, where we had the unusual circumstances such as this one.

Mr. SIMON. That is what I am trying to get at. Is this an unusual circumstance or was it routine that commanding officer had to use persuasion to fill up the projects.

Mr. TALLEY. In all of our projects initially we had some difficulty in getting the project filled. After the project is filled we find very little difficulty in the overall operation.

Mr. SIMON. I still am not certain whether you are telling us Stone River is the normal course or whether Stone River was the unusual one.

Mr. TALLEY. Strictly a guess, maybe the same thing would have been used at maybe a dozen or 20 different projects.

Mr. SIMON. Out of the 106?

Mr. TALLEY. Yes.

The CHAIRMAN. I want to issue some instructions to our staff at the moment. I wish the staff would ask the Army and the Navy for the exact information that we have asked these gentlemen to furnish us and ask the Army and the Navy to be prepared to come up in public hearing some day next week to testify on the information. Then I think when you get your information together that we have asked for we will ask you to come back, possibly and we might ask you some questions about it after you have given the statistics we just asked for.

Mr. TALLEY. Very well.

Mr. SIMON. The \$615,000 loan that you made to the Woodner Co.—is that a normal procedure?

Mr. TALLEY. That is the only one I know of.

Mr. SIMON. They got the regular FHA commitment, which presumably was 90 percent of the mortgage. Is that right?

Mr. TALLEY. To my best recollection, yes.

Mr. SIMON. They presumably posted whatever over and above money was required.

Mr. TALLEY. Yes, sir.

Mr. SIMON. They still needed to borrow \$615,000 from the Air Force to complete the project?

Mr. TALLEY. Yes, sir. We may have 800 occupied units there.

The CHAIRMAN. There is one other thing: I asked for the contractors' names to whom you awarded the contracts and we have discovered as a rule of these hearings that these companies have all sorts of names and many, many corporations. You will know whether there is a duplication of the same stockholders and the same individuals. We want you to designate that. For example, we do not want you to send up here X Corp., A Corp., B Corp., C Corp., etc. We want

you to say whether or not A, B, C, D corporations are the same stockholders and are owned by the same people. Is that clear what we want?

For example, we want to find out how many different individuals participated in this program.

Mr. TALLEY. Yes, sir.

Mr. SIMON. Was Wright-Patterson a negotiated or low-cost bidder contract?

Mr. TALLEY. Wright-Patterson was handled under the so-called old procedure where there were proposals put in and one of them were selected as being the sponsor of the project.

Mr. SIMON. Is that the way Mr. Cowan got selected?

Mr. TALLEY. Yes, sir; Mr. Cowan was one of the group.

Mr. SIMON. After you selected him didn't he take in some new partners who gave you a completely revised set of plans at a substantially higher cost?

Mr. TALLEY. There were a number of changes; yes, sir.

Mr. SIMON. At a substantially increased cost; isn't that true?

Mr. TALLEY. I couldn't say that was true; no, sir. In other words, as my recollection is, we got more space and I think we got a more livable house for approximately the same rent or possibly lower rent. I would have to refer to the records.

Mr. SIMON. I think you will find it is substantially increased cost, and I wondered whether there was any further information or public bidding at the time you changed the plans and increased the cost?

Mr. TALLEY. To my knowledge, there wasn't.

The CHAIRMAN. We are going to take to the field shortly with this investigation and possibly we will want to visit some of these projects, yours and the Army's as well as section 608's and section 213's.

Colonel PRINDLE. Mr. Chairman, I would like to clarify this subject of the order before we close up.

Late in January, on a holiday, I received word that such an order similar to this one was posted on the bulletin board in the military police squadron. I immediately sent for it and had it brought up to my office. It was an order signed by the airbase group commander, not an order, but a letter, to the effect that people would have to move. I then had all copies of that order returned and informed Colonel Carleton that he had no such authority, and then I publicly made that clear through our daily bulletins on the base, and through the newspapers off the base, that there was no one being ordered to move into the Wherry project.

Mr. SIMON. Your action went no further than vigorously or aggressively persuading them to come in?

Colonel PRINDLE. That is correct.

Mr. ROBINSON. In that connection——

The CHAIRMAN. I would like to have the record show at this point that Edward Carmack we have talked so much about here today is sick. And Joseph Hart has other business and failed to show up, and that we will hear both of these gentlemen at a later date. They were both supposed to be here today. I want the record to show they were not here today, and we will hear them later.

The fact we haven't heard them today they must understand doesn't mean we are not going to require them to appear later.

Mr. ROBINSON. Mr. Chairman, I would like to read two short sentences into the record from this letter, September 29, 1952, which I think very concisely states what the Air Force policy is:

The primary responsibility of the securing of full occupancy of title VIII military housing projects rests with the project sponsor. While the Air Force may have no legal responsibility for continued occupancy of these projects, certified action as to the essentiality of the project imposes a moral obligation to encourage and promote full occupancy.

I think that basically is what the Air Force policy is.

The CHAIRMAN. We will be with you or you will be with us again, possibly the latter part of next week, as will the Navy and Army when they get their information together. You get your information together such as we have asked for here today because we want to go over that very, very carefully, and will go over it very carefully. I would suggest that the Army and the Air Corps and the Navy give us the information we have asked for in advance so we get a chance to study it. Then we will want to discuss it with you in person as we are here today.

Mr. TALLEY. Would one day next week be soon enough?

The CHAIRMAN. Yes. It will be the latter part of next week. It will either be Thursday or Friday of next week.

Mr. TALLEY. Thank you.

(Material supplied in response to the above will be found in the files of the committee.)

The CHAIRMAN. Our next witness will be Mr. Alexander Muss, of the Inwood Construction Co. of New York.

Mr. Muss, would you prefer to testify at 10 o'clock tomorrow morning rather than today?

Mr. MUSS. I would not. I would like to do it now.

The CHAIRMAN. We will be very happy to hear you. I just wanted to make sure that you might not prefer tomorrow morning.

Will you be sworn, please.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF ALEXANDER MUSS, PARKWAY GARDENS, BROOKLYN, N. Y., ETC., ACCOMPANIED BY DAVID COLBY, ACCOUNTANT

Mr. MUSS. I do.

The CHAIRMAN. Thank you, sir.

Will you be seated and give your full name to the reporter.

Mr. MUSS. Alexander Muss, 115 Central Park West, New York City.

Mr. SIMON. What is your business, Mr. Muss?

Mr. MUSS. Building business.

Mr. SIMON. Will you give us a list of section 608 projects in which you have been interested in any manner?

The CHAIRMAN. This gentleman is your attorney?

Mr. MUSS. No. He is my—

The CHAIRMAN. Accountant?

Mr. MUSS. David Colby is his name, New York City.

We built Boulevard Gardens, Bayonne, N. J., 1947 and 1948.

Mr. SIMON. That was built in 1947?

Mr. MUSS. And 1948; yes, sir.

Mr. SIMON. What is the next one?

Mr. MUSS. Sunset Gardens, another in New Jersey, 1948 and 1949. Parkway Gardens, Brooklyn, N. Y., 1949 and 1950. Manhattan House, Brooklyn, N. Y., 1950 and 1951. Mitchel Manor, 1 and 2, Mitchel Field, Long Island. We now have under construction—

Mr. SIMON. You don't have a section 608 under construction, do you?

Mr. MUSS. We have a section 207 under construction known as Garden Development, Inc., and Forest Development, Queens, N. Y.

Mr. SIMON. Are the five section 608's you have given us all you have had any interest in?

Mr. MUSS. Four were section 608's, and one was a title VIII, Wherry bill.

Mr. SIMON. Is that the Mitchell?

Mr. MUSS. Mitchell.

Mr. SIMON. Are the four the only section 608's you have had any interest in?

Mr. MUSS. No. Prior to 1947 we had built two.

Mr. SIMON. What were they?

Mr. MUSS. In 1944 we built Crescent Gardens.

Mr. MUSS. C-r-e-s-c-e-n-t?

Mr. MUSS. Yes, Camden, N. J.

We built one in 1946, Yantacaw Village, Nutley, N. J.

Mr. SIMON. That is Y-a-n-t-a-c-a-w?

Mr. MUSS. Village, Nutley, N. J.

Mr. SIMON. Did you mortgage out in Crescent Village?

Mr. MUSS. I don't remember. We didn't invest any money in the project.

Mr. SIMON. Did you mortgage out in Yantacaw Village?

Mr. MUSS. No.

Mr. SIMON. What was your investment in that one?

Mr. MUSS. About \$40,000.

The CHAIRMAN. What do you mean when you say you didn't invest any money?

Mr. MUSS. Well, I meant in the long run after the project was completed.

The CHAIRMAN. You meant after you received the proceeds from the mortgage it was enough to cover all your expenses?

Mr. MUSS. Yes.

The CHAIRMAN. That is what you mean by not having put any money in it?

Mr. MUSS. That is correct.

Mr. SIMON. In the four section 608's that you had between 1947 and 1951, was the land a part of the sponsoring corporation?

Mr. MUSS. The land—

Mr. SIMON. Were any of them built on leaseholds?

Mr. MUSS. Yes.

Mr. SIMON. Which ones?

Mr. MUSS. Manhattan House was built on a leasehold.

Mr. SIMON. Were there others in the other projects where the land was owned by the sponsoring corporation?

Mr. MUSS. That is right.

Mr. SIMON. Manhattan House was the only lease?

Mr. MUSS. That is right.

Mr. SIMON. Who bought the land for Manhattan House?

Mr. MUSS. Manhattan House was bought by one of our corporations, known as Mill Realty Corp.

Mr. SIMON. Did it lease the land to Manhattan House?

Mr. MUSS. No; it sold the land to Manhattan House.

Mr. SIMON. Then Manhattan House is the sponsoring corporation?

Mr. MUSS. Yes; Manhattan House is the sponsoring corporation.

Mr. SIMON. Where did the leasehold come in?

Mr. MUSS. The accountant advised me that the Mill Realty sold it to three stockholders, who are interested in this project.

Mr. SIMON. And the three stockholders owned the land?

Mr. MUSS. Owned the land.

Mr. SIMON. And leased it?

Mr. MUSS. And leased it to Manhattan House.

Mr. SIMON. What did Mill Realty pay for the land?

Mr. MUSS. \$110,000—about \$110,000.

Mr. SIMON. And what did Mill Realty sell the land to the individuals for?

Mr. MUSS. \$110,000.

Mr. SIMON. And what is the valuation FHA put on the land for the 99-year lease?

Mr. MUSS. From the figures I have here, it seems as if we obtained \$163,800.

Mr. SIMON. Is that the amount of the mortgage?

Mr. MUSS. No. That was the amount the mortgage leased for.

Mr. SIMON. You mortgaged the leasehold for that amount?

Mr. MUSS. Yes.

Mr. SIMON. What was the FHA valuation?

Mr. MUSS. Somewhere around \$200,000, I assume.

Mr. SIMON. Let us see if I get this right. You bought the land for \$110,000, FHA valued it for \$200,000, and then you were able to put a mortgage on it for \$183,000?

Mr. MUSS. Yes, but when we mortgaged it for \$163,000, and when we represented it cost \$110,000 those are the very bald facts of the purchase, but there are other costs that are involved that I haven't got here, in connection with carrying the land and bringing it up to building purposes.

Mr. SIMON. How long a time elapsed between the time the three stockholders purchased the land and the time you made the 99-year lease?

Mr. MUSS. I guess it was between the time we bought the land and when we got the commitment and the right to build the project.

Mr. SIMON. How long intervened between the time the three stockholders bought the land and the time you got the commitment?

Mr. MUSS. I will check the records.

Without referring to the record, it usually takes them 6 to 8 months, I assume, approximately.

Mr. SIMON. What was the capital stock of Manhattan House?

Mr. MUSS. \$10,000.

Mr. SIMON. What was the mortgage commitment?

Mr. MUSS. The mortgage commitment, \$1,996,000—\$1,863,000.

Mr. SIMON. \$1,863,000?

Mr. MUSS. That is right.

Mr. SIMON. Who built the building?

Mr. MUSS. Cropsey Construction Corp.

Mr. SIMON. Is that a fixed fee or cost plus?

Mr. MUSS. One of our own operations, same stockholders as—not quite the same stockholders, but the same people interested, were interested in the other corporation.

Mr. SIMON. Did you have a lump sum contract or a cost-plus contract?

Mr. MUSS. We had a lump sum contract.

Mr. SIMON. What was that?

Mr. MUSS. \$1,520,000, plus a fee stock we had issued which was part of the capitalization of \$76,000, making a total of \$1,596,000.

Mr. SIMON. What was the cost to the Cropsey Construction Co. of building the project?

Mr. MUSS. \$1,588,194.55, plus financing, legal, and architecture, etc., \$115,498.05.

Mr. SIMON. The building company then lost money on the project; is that right?

Mr. MUSS. The building company lost money on the project.

Excuse me, Mr. Colby can explain the financial transactions.

Mr. COLBY. The construction costs in the building corporation were \$1,588,194. The financing, legal, architect—

Mr. SIMON. Could you talk a little louder, please?

Mr. COLBY. The financing, legal, architect, and other costs were assumed by the owning corporation, and they amounted to \$115,498.05. In other words, the building corporation had a cost of \$1,588,000, for which they had a contract of \$1,520,000, plus the B stock which they received in the amount of \$76,000, making a total of \$1,596,000.

Mr. SIMON. Are you telling us that the cost to the building company turned out to be precisely to the dollar the contract price?

Mr. COLBY. Well, it wasn't to the dollar, but you will notice in all our projects we followed this principle, where the construction costs were—was actually the price that we gave the contract to the owning company for.

Mr. SIMON. Were these contracts made before the buildings were built?

Mr. COLBY. Well, in some cases they were.

Mr. SIMON. How could you know before the building was built exactly what the costs were going to be?

Mr. COLBY. We didn't. I said the contracts were not made before the building was built.

Mr. SIMON. Didn't you have to give FHA a copy of the contract before they issued their commitment?

Mr. MUSS. I don't think we ever gave them a copy of the contract. They only approved the contractor, I think, but we never gave them a price.

Mr. SIMON. Are you certain, Mr. Muss, you never gave FHA a copy of your lump-sum contract?

Mr. MUSS. I am not sure, now.

Did we?

I don't know. I don't remember.

Mr. SIMON. Isn't it a fact you even put them on FHA forms?

Mr. MUSS. I think you are right. I am not sure. I don't know.

Mr. SIMON. It is your testimony, not mine. Did you have a lump-sum contract on an FHA form which you gave to FHA?

Mr. MUSS. I didn't hand him those forms. An associate of mine did but if that was the procedure, we did.

Mr. SIMON. Then how could you have a contract which turned out to be exactly the construction cost, which was signed and given to FHA before you got your commitment?

Mr. MUSS. I don't know.

Mr. SIMON. But you still stay that the actual cost of construction for this construction company was \$1,588,000, is that right?

Mr. MUSS. Mr. Colby advises me we set up these things after we built them, exactly what the cost was and set up the contract, in the exact amount, as far as I was concerned.

Mr. SIMON. You must have amended or revised the contract you gave FHA at the closing, isn't that true?

Mr. MUSS. I don't know.

Mr. SIMON. Do you have with you copies of these contracts?

Mr. MUSS. No. I have no copies of the contracts. We can get them for you, if there are such.

Mr. SIMON. You don't know whether you gave FHA copies of contracts at the time of closing for the commitment?

Mr. MUSS. I don't know, no.

Mr. SIMON. What was the net surplus of mortgage proceeds over all costs on Manhattantown?

Mr. MUSS. Including what we borrowed on the leasehold, \$235,575.

Mr. SIMON. Now your total mortgage was \$1,863,000 wasn't it?

Mr. MUSS. \$1,863,000.

Mr. SIMON. And your building was \$1,588,000, is that right?

Mr. MUSS. That is right.

Mr. SIMON. Did you get a premium on the mortgage?

Mr. MUSS. \$75,420.

Mr. SIMON. That would bring the total difference up to \$300,000, wouldn't it?

Mr. MUSS. Let's put it this way, take these figures: \$159,307, the difference between the land cost and the sale—the mortgaging of the fee, \$53,000 and the mortgage premium, \$75,000.

Mr. SIMON. That is \$287,000?

Mr. MUSS. That is right.

Mr. SIMON. That is on Manhattan House?

Mr. MUSS. Yes, sir.

Mr. SIMON. The proceeds of the mortgages exceeded the total costs by \$287,000; is that right?

Mr. MUSS. Approximately.

Mr. SIMON. Now, on Parkway, what was the cost of the land?

Mr. MUSS. \$80,536.

Mr. SIMON. What was the mortgage?

Mr. MUSS. \$1,078,200.

Mr. SIMON. Who built the building?

Mr. MUSS. Cropsey Construction Co.

Mr. SIMON. What was their actual construction cost?

Mr. MUSS. \$806,368.45.

Mr. SIMON. What other costs did you have?

Mr. MUSS. \$65,429.12.

Mr. SIMON. Is the total of the land cost and construction cost and the \$65,000 your total costs?

Mr. MUSS. Yes, \$952,332, a balance of \$125,866.

Mr. SIMON. Is there a premium there?

Mr. MUSS. \$37,737.

Mr. SIMON. And the mortgage proceeds exceeded the total cost by \$162,000, is that right?

Mr. MUSS. Approximately.

Mr. SIMON. What was the capital stock of Parkway Gardens?

Mr. MUSS. \$60,000.

Mr. SIMON. Common stock?

Mr. MUSS. \$48,913. That was—common stock was \$60,000.

Mr. SIMON. \$60,000 of common stock?

Mr. MUSS. A stock.

Mr. SIMON. Was that common or A, preferred?

Mr. MUSS. Common A stock is listed here.

Mr. SIMON. Was the preferred stock redeemed?

Mr. MUSS. There was no redemption of the stock.

Mr. SIMON. The \$60,000 of stock is still outstanding; is that right?

Mr. MUSS. That is correct.

Mr. SIMON. In Sunset Gardens, what was the capital stock?

Mr. MUSS. \$2,000.

Mr. SIMON. What was the cost of the land?

Mr. MUSS. \$37,476.02.

Mr. SIMON. What was the mortgage?

Mr. MUSS. The mortgage was \$595,750.

Mr. SIMON. Who built the building?

Mr. MUSS. Vreeland Construction Corp.

Mr. SIMON. Is that owned by the same interests?

Mr. MUSS. Same interests, not quite, a little variation of interests but primarily controlling stockholders were the same.

Mr. SIMON. What was its actual construction cost?

Mr. MUSS. \$610,935.67, financing, legal and architect, \$27,887, total, with the land cost, \$676,302.

Mr. SIMON. Did you get a premium on the mortgage?

Mr. MUSS. No.

Mr. SIMON. No premium on the mortgage?

Mr. MUSS. There we invested \$80,505.43.

Mr. SIMON. On Boulevard Gardens what was the capital stock?

Mr. MUSS. \$20,000.

Mr. SIMON. What was the mortgage?

Mr. MUSS. \$1,675,000.

Mr. SIMON. Who built the building?

Mr. MUSS. Bay Construction Corp.

Mr. SIMON. Same stockholders?

Mr. MUSS. Yes.

Mr. SIMON. What was its cost of construction?

Mr. MUSS. \$1,416,510.

Mr. SIMON. What were the other costs?

Mr. MUSS. \$78,197 was the land, miscellaneous costs, including architect, \$43,161, total, \$1,537,868, surplus, \$137,131.19. There is no fee for the mortgage premium.

Mr. SIMON. I take it in all these cases you include 5 percent for architects' costs in your application?

Mr. MUSS. That is correct.

Mr. SIMON. And what did the architects' fee actually average?

Mr. MUSS. I would say about 1 percent.

Mr. SIMON. About 1 percent?

Mr. MUSS. Yes.

Mr. SIMON. On 3 of these projects, you had excess mortgage proceeds, or windfalls of \$586,000, and on 1 of them you had an investment you say of \$80,000, so on the 4, the net windfall would be \$506,000, roughly speaking; is that right?

Mr. MUSS. Yes, if that is the addition.

Mr. SIMON. Now this Wherry project that you built—When was that?

Mr. MUSS. That was built in 1951 and 1952.

Mr. SIMON. On Government land or privately owned land?

Mr. MUSS. Government-owned land.

Mr. SIMON. The Government owned the land and leased it to you for \$1 a year?

Mr. MUSS. \$100 a year.

Mr. SIMON. You pay no taxes?

Mr. MUSS. Pay no taxes, which reflects in the rent.

Mr. SIMON. What was the mortgage?

Mr. MUSS. It was divided in two sections, Mitchell Manor No. 1 which had a mortgage of \$2,204,399.47.

Mr. SIMON. What was the other mortgage?

Mr. MUSS. Mitchell Manor No. 2, \$3,189,400.

Mr. SIMON. Who built the buildings?

Mr. MUSS. Cropsey Construction Corp.

Mr. SIMON. And it was owned by the same people that owned Mitchell Manor?

Mr. MUSS. Yes.

Mr. SIMON. What was its actual cost of construction?

Mr. MUSS. Mitchell Manor No. 1—Do you want both figures?

Mr. SIMON. Yes.

Mr. MUSS. First, Cropsey Construction Corp. owned all the stock of Mitchell Manor, 1 and 2.

Construction cost together with land and architecture, Mitchell 1, \$1,971,644. I am leaving off the change on this, and Mitchell Manor No. 2 was \$2,808,541.

Mr. SIMON. \$2,800,000 what?

Mr. MUSS. \$2,808,541.

Mr. SIMON. What were our other costs?

Mr. MUSS. Well, when I gave you the cost I included the construction and the financing all in one.

Mr. SIMON. Total costs?

Mr. MUSS. Yes.

Mr. SIMON. For both projects, roughly \$4,779,000?

Mr. MUSS. That is correct.

Mr. SIMON. The difference is roughly \$595,000?

Mr. MUSS. That is correct.

Mr. SIMON. So that on that project—

Mr. MUSS. \$232,000 and \$380,000, \$612,000. We received a premium of \$41,000—no—

Mr. SIMON. Did you receive a premium?

Mr. MUSS. Yes, of \$34,000.

Mr. SIMON. What does that make the total by which the mortgage proceeds exceeded cost?

Mr. MUSS. \$380,000 and \$232,000, and \$14,000.

Mr. SIMON. \$546,000?

Mr. MUSS. \$646,000.

Mr. SIMON. Right, excuse me. If you add that to the \$508,000, it is \$1,154,000; is that right?

Mr. MUSS. That is what it adds up. I guess it does.

Mr. SIMON. And these five projects, you built the projects—

Mr. MUSS. Did you deduct what we invested in the other project?

Mr. SIMON. Yes, we had \$586,000 on the three, took off \$80,000 for the one where you had that investment, and brought it down to \$508,000, and \$508,000 plus \$646,000 would be \$1,154,000. If I understand it rightly in these five projects, out of the proceeds of the mortgage you got back all your costs including land and interest and taxes and everything else, and still had \$1,150,000 left over out of the mortgage proceeds and still owned the buildings?

Mr. MUSS. That is correct.

Mr. SIMON. Did you have any other FHA projects?

Mr. MUSS. Under rental housing?

Mr. SIMON. Yes.

Mr. MUSS. No.

Mr. SIMON. Any section 213's?

Mr. MUSS. No.

Mr. SIMON. The only other FHA projects you had then were single-family-sale houses?

Mr. MUSS. That is correct.

Mr. SIMON. One last question: Do I understand correctly—and if this isn't correct I want you to change it—that on your closing, with FHA, for their commitment, you gave them a lump-sum contract on the FHA printed form as a contract price and then after the buildings were built, you revised the contract to make it turn out to be the actual construction cost?

Mr. MUSS. I don't know. I mean if that is what it was—Mr. Colby will have to advise you on that.

Mr. COLBY. I know that I never submitted any building costs to the FHA and there was another executive in the corporation that probably took care of that. I wouldn't know about it.

Mr. MUSS. Was that the procedure that we had to furnish a contract?

Mr. SIMON. I don't happen to have it for your building but there is a printed form of FHA.

Mr. MUSS. They had to approve our contract.

Mr. SIMON. Didn't you give them one of those for each contract?

Mr. MUSS. Yes.

Mr. SIMON. And you had to give them that before, or at least the same time you got the commitment; is that right?

Mr. MUSS. In there we stated the amount of the cost of the construction of the job, yes.

Mr. SIMON. When you finished the job you revised the contract; is that right?

Mr. MUSS. If we did revise it we revised it to amend our costs, whatever it cost us to build, and that is what we set up.

Mr. SIMON. Did you return this income as long-term capital gain?

Mr. MUSS. No, we hadn't.

Mr. SIMON. Have you distributed these windfall profits?

Mr. MUSS. No, we haven't distributed them.

Mr. SIMON. Are they still in the corporation?

Mr. MUSS. No. We borrowed the money from the corporation as loans and we owe it to the corporation.

Mr. SIMON. The excess of funds over the cost of construction were loaned out to stockholders?

Mr. MUSS. Yes.

Mr. SIMON. In proportion to their stockholdings?

Mr. MUSS. Yes.

Mr. SIMON. What was the reason for that?

Mr. MUSS. Well, because we were waiting to get a clarification of the tax situation, and then we would file our tax returns.

Mr. SIMON. In other words, you didn't want to pay normal income tax on the full profits?

Mr. MUSS. I don't know.

The CHAIRMAN. Not if you could pay capital gains, you wouldn't want to pay normal, at least I wouldn't.

Mr. MUSS. No.

Mr. SIMON. Mr. Muss, what percentage of the stock did you own in these projects?

Mr. MUSS. Boulevard Gardens, I had 50 percent; Sunset Gardens, I had 50 percent and then they took me down, Parkway Gardens, I had 40 percent.

Mr. SIMON. Who were the other stockholders in the first two?

Mr. MUSS. Samuel Schafran.

Mr. SIMON. Who is he?

Mr. MUSS. He is now deceased. He was a partner of mine.

Mr. SIMON. What was his business?

Mr. MUSS. Building business.

Mr. SIMON. What percentage did he have?

Mr. MUSS. Fifty percent.

Mr. SIMON. You and he each had 50 percent?

Mr. MUSS. That is right.

Mr. SIMON. Was that one of those built by Cropsey?

Mr. MUSS. That was one built by Bay Construction.

Mr. SIMON. Did you and he each own 50 percent of Bay?

Mr. MUSS. Correct.

Mr. SIMON. And on Sunset did you own 50 percent?

Mr. MUSS. That is correct.

Mr. SIMON. Who owned the other 50 percent?

Mr. MUSS. Mr. Schafran.

Mr. SIMON. That was built by Freeland?

Mr. MUSS. Yes; of which we each have the same shares of stock.

Mr. SIMON. Parkway, you had 40 percent?

Mr. MUSS. Mr. Schafran had 40, I had 40, Jacob L. Rappaport.

Mr. SIMON. Who is he?

Mr. MUSS. A nephew of Mr. Schafran who was building other projects and we gave him an interest in the project.

Mr. SIMON. Cropsey built that?

Mr. MUSS. Yes.

Mr. SIMON. Were the same people stockholders in Cropsey?

Mr. MUSS. Yes. It was modified to add just the same stockholders as in the Parkway Gardens; yes.

Mr. SIMON. Who were the stockholders in Manhattan House?

Mr. MUSS. In Manhattan House, Adrienne Schafran.

Mr. SIMON. Is that a he or she?

Mr. MUSS. Daughter of Mr. Schafran, and Cynthia A. Muss, who is my daughter, had 40 percent, and Jacob L. Rappaport had 20 percent.

Mr. SIMONS. You didn't have any in that?

Mr. MUSS. No; but I had it in Cropsey, and Cropsey was the contractor and our interests were 40-40-20.

The CHAIRMAN. Is Cropsey incorporated?

Mr. MUSS. Cropsey Construction Corp.

The CHAIRMAN. You had 40; who else had 40?

Mr. MUSS. Mr. Schafran and Mr. Rappaport had 20.

Mr. SIMON. In other words, the fathers had the stock in Cropsey but the daughters owned in Manhattan House?

Mr. MUSS. That is correct.

Mr. SIMON. That is the one where the construction company turned out not to make any money?

Mr. MUSS. No. That was Manhattan House. That is where we had the leasehold where we made three-hundred-some-odd-thousand dollars.

Mr. SIMON. In all of these, though, there was no money made in the construction company; isn't that right?

Mr. MUSS. That is right.

Mr. SIMON. The profit was all made in the sponsoring corporation?

Mr. MUSS. Yes, except the Mitchell Manor.

Mr. SIMON. In Manhattan House it was the daughters who made the money and not the fathers?

Mr. MUSS. That is right.

Mr. SIMON. In Mitchell Manor who were the stockholders?

Mr. MUSS. Cropsey had the stock of Mitchell Manor 1 and 2, and Alexander Muss and Samuel Schafran and Jacob L. Rappaport, 40, 40, 20.

Mr. SIMON. You are a brother of David Muss, you weren't in any projects together?

Mr. MUSS. No.

Mr. SIMON. You are a brother of Hyman Muss?

Mr. MUSS. Yes, and a brother of Charles Muss.

Mr. SIMON. You weren't in any of their projects either?

Mr. MUSS. No.

Mr. SIMON. Thank you very much.

The CHAIRMAN. I have a couple of questions here.

Were you ever taught by FHA officials that it was possible to put no money in these section 608 projects?

Mr. MUSS. No, sir.

The CHAIRMAN. Did you ever hear anyone discuss that possibility?

Mr. MUSS. No, sir.

The CHAIRMAN. Did you hear the testimony of the gentleman from Los Angeles this morning?

Mr. MUSS. Yes.

The CHAIRMAN. Did you ever have any such experience in New York?

Mr. MUSS. No, sir.

The CHAIRMAN. You did not?

Mr. MUSS. No, sir.

The CHAIRMAN. It just happened that it worked out like that in your cases?

Mr. MUSS. Yes. Well, I don't know how the other builders fared, but we watched it, worked, financed most of the projects with our own money, and the contracts were so well formed we were able to make this profit.

The CHAIRMAN. You wouldn't have gone into the projects unless you had been pretty well able to mortgage out?

Mr. MUSS. No, at the beginning I don't think we intended to go in with mortgaging out, but the income showed it would be satisfactory, and after a while it was a common general practice we could mortgage out, except for a period of time when things took an increase in price, in cost.

The CHAIRMAN. Thank you very much, and if there are no further questions, we will now recess until—unless you have something further to say.

Mr. MUSS. No.

The CHAIRMAN. We thank you very much.

We are going to recess until 10 o'clock tomorrow morning and I want to give you our witnesses for tomorrow.

The first witness tomorrow morning will be Samuel Rodman, of New York, the second witness will be Mr. Sporkin, and Mr. DuBois, and the third witness will be Mr. Franklin Trice. That is on tomorrow.

Next Tuesday, at 10 a. m., we will hear Mr. Woodner, of Washington. We will now recess until 10 o'clock tomorrow morning.

(Whereupon, at 4:05 p. m., the committee recessed to 10 a. m., Friday, July 23, 1954.)

FHA INVESTIGATION

FRIDAY, JULY 23, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, at 10 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Maybank, and Payne.

Also present: William Simon, general counsel, FHA investigation.

The CHAIRMAN. The committee will please come to order.

Our first witness will be Mr. Samuel Rodman, of New York City.

Mr. Rodman, will you please come forward?

Mr. Rodman, will you be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF SAMUEL RODMAN, ATLANTIC GARDENS, WASHINGTON, D. C., ETC., ACCOMPANIED BY GERHARD VAN ARKEL, COUNSEL

Mr. RODMAN. So help me God, I do.

The CHAIRMAN. Thank you, sir.

Please be seated.

Give your full name and address to the reporter, and the gentleman with you is your attorney?

Mr. VAN ARKEL. My name is Gerhard Van Arkel.

The CHAIRMAN. Gerhard Van Arkel?

Mr. VAN ARKEL. Yes, sir, 1830 Jefferson Place NW.

I wonder if the record might show, Mr. Chairman, that Mr. Rodman is here, pursuant to a subpoena which was served on him, I believe, on the 15th?

The CHAIRMAN. We will be very happy to have the record show that. The record will show that Mr. Rodman is here as the result of a subpoena issued by the chairman of this committee.

You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Rodman, will you give the reporter your full name and address?

Mr. RODMAN. My name is Samuel J. Rodman, 321 West 38th, New York City.

Mr. SIMON. Are you connected or were you connected with Atlantic Gardens, Section One, Inc.?

Mr. RODMAN. Yes, sir.

Mr. SIMON. Are you still connected with that company?

Mr. RODMAN. No, sir.

Mr. SIMON. When did you sell out?

Mr. RODMAN. About April 26, 1950.

Mr. SIMON. Did Atlantic Gardens, Section One, Inc., build an apartment house in Washington, D. C., under section 608 of the Federal Housing Act?

Mr. RODMAN. Yes, sir.

Mr. SIMON. When did you file your application?

Mr. RODMAN. If my memory serves me correctly, somewhere in 1948 or early in 1949.

Mr. SIMON. I have an application here, dated October 21, 1947, with a file stamp of October 22, 1947; is that correct?

Mr. RODMAN. That is probably correct.

The time of filing and the time of starting operations generally called for a lapse of many months.

Mr. SIMON. Who were the stockholders of Atlantic Gardens Apartments, Inc.?

Mr. RODMAN. Atlantic Gardens Apartments One?

Mr. SIMON. Yes.

Mr. RODMAN. Myself and Mr. Max Fink.

Mr. SIMON. What was the capital stock of that corporation?

Mr. RODMAN. If I recollect, land and plans came to about \$37,000.

Mr. SIMON. Capital stock?

Mr. RODMAN. Capital stock, if I recollect, about \$5,000 each.

Mr. SIMON. I have before me a balance sheet of Atlantic Gardens, Inc., which shows common stock of \$1,000, and preferred stock to the Federal Housing Commissioner of \$100, a total of \$1,100; is that right?

Mr. RODMAN. Of course you know the capital stock of FHA, \$100, was a usual arrangement?

Mr. SIMON. Yes, and then the common stock with yourself and Mr. Fink is shown here as \$1,000.

Mr. DODMAN. If the record so states that is what it was.

The CHAIRMAN. In other words, the capital stock was \$1,000. That was how many shares? Was that a thousand shares at \$1 par or no par? Do you remember, Mr. Rodman?

Mr. RODMAN. Approximately \$1 par.

The CHAIRMAN. In any event, the \$1,000 represented the investment in capital stock?

Mr. RODMAN. Yes.

The CHAIRMAN. Plus the \$100 on the part of the FHA?

Mr. VAN ARKEL. Mr. Chairman, I wonder if for the convenience of the witness, the photographers might be asked to stop?

The CHAIRMAN. Is it the wish of the witness that there be no photographers here?

Mr. RODMAN. No. I have no objection, but I wish they would take my likeness and be through.

The CHAIRMAN. If you prefer, we would ask them to stand aside.

Mr. RODMAN. I would prefer it.

The CHAIRMAN. It is the wish of the witness that the photographers stand aside.

Mr. RODMAN. After they take my picture.

Mr. SIMON. Mr. Rodman, what was the amount of the mortgage on section 1?

Mr. RODMAN. A little under \$500,000. Your figures will show probably \$450,000.

Mr. SIMON. What was the cost of construction of section 1?

Mr. RODMAN. I did not anticipate being questioned on sections 1 and 2, since I sold out, so that I don't have the figures with me. I know that the committee is going to question me more fully on section 3, because I still own it.

The CHAIRMAN. Is that Chesapeake Gardens?

Mr. RODMAN. Yes.

Mr. SIMON. Didn't we question you on all three of them in executive session a couple of weeks ago?

Mr. RODMAN. Not as to these details as to cost because I stated when I was questioned that I sold out and in anticipation of getting figures for the private hearing, I went to the accountant as of the time—Senator Payne was there when I made the statement I think—to get the information, and he told me Mr. Fink had since sold out and having sold out he has no records in his possession.

Mr. SIMON. Did you mortgage out on section 1?

Mr. RODMAN. I certainly did. I made money on it.

Mr. SIMON. What was the amount by which the mortgage exceeded the construction cost?

Mr. RODMAN. On section 1?

Mr. SIMON. Yes.

Mr. RODMAN. As I stated, the figures remained in the corporation. The corporation was sold. I can only give you figures that are vague in my mind.

Mr. SIMON. What is your best recollection of the amount by which the mortgage exceeded the costs on section 1?

Mr. RODMAN. My best recollection would be—do you intend to question me on section 2 separately, right?

Mr. SIMON. Yes, sir.

Mr. RODMAN. My best recollection would be that on section 1, we mortgaged out and made about \$50,000 to \$60,000.

Mr. SIMON. \$50,000 to \$60,000.

Who built section 1?

Mr. RODMAN. Atlantic Construction Corp.

Mr. SIMON. You are sure it wasn't Chesapeake Construction Corp?

Mr. RODMAN. Yes, sir; I am sure.

Mr. SIMON. It was Atlantic Construction Co.

Mr. RODMAN. Yes, sir.

Mr. SIMON. Does the \$50,000 or \$60,000 that you testified to mortgaging out, include the profits of Atlantic Construction Co?

Mr. RODMAN. Yes.

Mr. SIMON. It does?

Mr. RODMAN. Yes.

Mr. SIMON. Who were the stockholders of the Atlantic Construction Co.?

Mr. RODMAN. Primary stockholders were Mr. Fink and myself.

Mr. SIMON. How much did you mortgage out on section 2?

Mr. RODMAN. Again, it would be a question of recalling vaguely. This dates back 4 years, and I had no access to the figures before I came here for the reasons stated. Probably another \$75,000.

Mr. SIMON. \$75,000, and who built section 2?

Mr. RODMAN. Atlantic Gardens Construction Corp.

Mr. SIMON. Atlantic Gardens Construction Corp., and is that the same construction company that built section 1?

Mr. RODMAN. Yes.

Mr. SIMON. Does this \$75,000 include the profits of the Construction Co.?

Mr. RODMAN. I should think so.

Mr. SIMON. Who were the stockholders of that construction company?

Mr. RODMAN. Mr. Fink and myself.

Mr. SIMON. Anybody else?

Mr. RODMAN. As I recall, Mr. Fink and myself and our wives presumably.

Mr. SIMON. Did each of you then own 25 percent of the stock, or how was it divided?

Mr. RODMAN. I would imagine so, 25 percent each.

Mr. SIMON. You owned 25 percent of that stock?

Mr. RODMAN. Yes.

Mr. SIMON. And Mr. Fink owned 25 percent?

Mr. RODMAN. Yes.

Mr. SIMON. Mr. Fink's wife owned 25 percent?

Mr. RODMAN. Right.

Mr. SIMON. What was her name?

Mr. RODMAN. I don't recall.

Mr. SIMON. And your wife owned 25 percent?

Mr. RODMAN. That is right.

Mr. SIMON. What was her name?

Mr. RODMAN. Bella.

Mr. SIMON. Bella Rodman?

Mr. RODMAN. Yes.

Mr. SIMON. Who owned the land on which this building was built?

Mr. RODMAN. Originally, I owned it, and I sold a portion of it to the Atlantic Gardens Corp.

Mr. SIMON. Isn't it a fact that you and your brother and his wife and your wife owned the land?

Mr. RODMAN. No.

It is a fact that my brother and our respective wives bought a large tract of land on part of which this project was built, and other projects were built.

Mr. SIMON. How big was that tract of land?

Mr. RODMAN. Forty acres.

Senator PAYNE. Mr. Chairman, did you say your wife's name was Bella?

Mr. RODMAN. Yes.

Senator PAYNE. Is she the same Bella Rodman who appeared before the House Un-American Activities Committee?

Mr. VAN ARKEL. Senator, I don't like to interrupt the course of the interrogation, but is that relevant to the investigation here?

Senator PAYNE. I am interested in this if this is the case, could I just have an answer to that question?

Mr. VAN ARKEL. I see no objection to Mr. Rodman answering that question.

The CHAIRMAN. The Chair will rule that it is pertinent, providing that Bella Rodman—is that your wife?

Mr. RODMAN. Yes.

The CHAIRMAN. Providing Bella Rodman is a partner in this project. Is she a partner in this project?

Mr. RODMAN. No, she is not.

Mr. SIMON. Didn't you just say she owned 25 percent of the stock of Atlantic Gardens?

Mr. RODMAN. She did at that time.

The CHAIRMAN. Then the question is proper.

Senator PAYNE. I will just follow it through: The reason I am interested is, if I recall the case correctly—and I have taken the pains to check on this, because I wasn't sure whether it was the same case or not—it involved possibilities of contributions of funds to Communist organizations, and I think I am correct in stating that the fifth amendment was invoked in connection with the answers. My reason for asking this is because of the fact that this project apparently was started in 1947, or at least application was filed; the hearings before that committee, I think, were in 1949, and there were questions at that particular time, as I have stated, with reference to contributions. I am very much interested in going into it a little more about contributions because if mortgaging out did take place, on the basis of funds which were guaranteed by this Government, I think it is a matter very pertinent to the matter that is in hearing here.

Mr. VAN ARKEL. As I understand it, the question is whether or not his wife appeared. Is that the question?

Senator PAYNE. That is right.

The CHAIRMAN. Is your wife the same Bella Rodman that appeared before the Un-American Activities Committee in 1948 or 1949?

Mr. RODMAN. Yes. That is my wife.

The CHAIRMAN. She is the same person who refused to answer questions at that time with respect to Communist activities and hid behind the fifth amendment; is that correct?

Mr. RODMAN. No.

Mr. VAN ARKEL. I don't like the characterization, "hiding behind the fifth amendment."

Mr. RODMAN. My wife as I recall it used the fifth amendment which constitutionally permits a person not to testify against herself. I would not use the words "hide behind" it.

It is your privilege to do it if you wish.

The CHAIRMAN. Maybe that is a term that has been used around here for a long while.

Mr. RODMAN. Mr. McCarthy has been saying "fifth amendment Communists."

The CHAIRMAN. I withdraw the question, "hide behind the fifth amendment."

Mr. RODMAN. I am glad you did.

Joe McCarthy has been saying fifth amendment Communist.

The CHAIRMAN. My question is: Did your wife invoke the fifth amendment during the Un-American Activities hearings?

Mr. RODMAN. Yes, she did.

The CHAIRMAN. Did you contribute any of the funds you made—you said you made a profit of \$75,000; we have so far talked about two projects; \$50,000 on one and \$75,000 on the other—were any of these funds used to contribute to any so-called un-American-activities organization of any kind in the United States?

Mr. VAN ARKEL. Senator, I suggest that is an impossible question for a witness to answer; a so-called un-American activities organization is simply not susceptible of being answered intelligently.

The CHAIRMAN. Does anybody have the transcript of what happened?

Senator PAYNE. Yes, Mr. Chairman, I do have the transcript here on the case. I was interested in this and I am only interested from the angle that here we are dealing with something that is tied in with the activities of our Government. In certain testimony that was given in 1949, there seems to have been a willingness to answer just about every question as near as I can determine—I am not going to take the time here to go through the questions and answers—but it is a matter of public record. Questions were pretty well answered on everything except those matters that pertained to either so-called subversive activities, or the Communist Party, if we want to put it that way, or any contributions that may have been given. Those were the instances which in every case the witness refused to answer.

Yet, on practically every other question, with reference to other facts, rather complete answers were given without any hesitation whatsoever. Again I just want to say I am not going to read the testimony—

The CHAIRMAN. Let me see this document, please.

Senator PAYNE. It is a matter of record. I think this committee is entitled to know a little more about this. If money from the Treasury of the United States, made up of contributions by the individuals of this country, in support of its Government, if those funds in any way, shape, or manner, which were guaranteed by this Government, and secured in the way of windfall profits or mortgaging out at the expense of the American taxpayer, which it might well be in the long run, were used for activities that I would definitely say were un-American, then I think we ought to know about it.

Mr. VAN ARKEL. May I make a suggestion, Senator?

This was a public hearing. It is a matter of public record. It would seem to me it is entirely within the right of the chairman to put this into the record at this point, if he wants to do it.

The CHAIRMAN. I hold in my hand, handed me by Senator Payne, the hearings of the Committee on Un-American Activities, House of Representatives, 81st Congress, 1st session, June 28, 29, July 6, 12, and 28, 1949, in which is the testimony of the witness before us at the moment, and his wife, Bella Rodman at that time. If there is no objection we will place in the record at this time the testimony given before that committee back in 1949—the testimony of this witness, Mr. Rodman, and his wife, Bella Rodman.

(The testimony of Bella Rodman (accompanied by her counsel, Clifford J. Durr) is as follows:)

Mr. TAVENNER. Will you state your full name, please?

Mrs. RODMAN. Bella Rodman.

Mr. TAVENNER. When and where were you born?

Mrs. RODMAN. I was born in December 1902 in Warsaw, Poland.

Mr. TAVENNER. What is your present address?

Mrs. RODMAN. 3700 Massachusetts Avenue NW.

Mr. TAVENNER. Mrs. Rodman, have you at any time received a contribution for the benefit of the Communist Party from Mrs. Rose Anderson?

Mrs. RODMAN. I will not be able to answer that question on the grounds that it may tend to incriminate me.

Mr. WOOD. Just a moment, Mr. Counsel. Let me see if I can get a clarification. You mean you are unable to answer it because of lack of information, or that you decline to answer?

Mrs. RODMAN. I decline to answer.

Mr. TAVENNER. Have you collected contributions of funds at any time for the benefit of the Communist Party?

Mrs. RODMAN. I am afraid the same answer will have to hold.

Mr. WOOD. The question is not whether or not you are afraid, but whether you decline to answer.

Mrs. RODMAN. I decline to answer the question on the same grounds.

Mr. TAVENNER. Mr. Chairman, those are the questions I wanted to ask, if you are anxious to leave. I am not through yet.

Mr. McSWEENEY. How much longer will it take with this witness?

Mr. TAVENNER. Five or ten minutes.

(Discussion off the record between members of the committee.)

Mr. WOOD. Let the record show that Mr. Case is being excused, and a quorum still remains in the proceedings.

Mr. TAVENNER. Do you know Mr. Martin Chancey?

Mrs. RODMAN. I cannot answer that question on the grounds that it may tend to incriminate me.

Mr. WOOD. The same clarification again.

Mrs. RODMAN. I am sorry. I should have said I refuse to answer that question.

Mr. WOOD. Is that what you do say?

Mrs. RODMAN. That is what I do say.

Mr. TAVENNER. Are you a stockholder in radio station WQQW?

Mrs. RODMAN. I believe I am.

Mr. TAVENNER. How much stock do you own?

Mrs. RODMAN. I don't know. I will hazard a guess. I think perhaps a few hundred dollars. I really don't know.

Mr. TAVENNER. How long have you owned it?

Mrs. RODMAN. I believe from the inception, or the organization, of the station.

Mr. TAVENNER. Are you connected in any way with what is known as the sustaining fund of the Communist Party of the District of Columbia?

Mrs. RODMAN. I refuse to answer that question on the grounds that it may tend to incriminate me.

Mr. TAVENNER. Do you know Charlotte Young, who is now married and whose present name is Mrs. Oram?

Mrs. RODMAN. Yes; I do.

Mr. TAVENNER. Have you made any contributions to her for the benefit of the Communist Party?

Mrs. RODMAN. I refuse to answer that question on the grounds that it may tend to incriminate me.

Mr. TAVENNER. Have you received funds from any person for the benefit of the Communist Party?

Mrs. RODMAN. I refuse to answer that question on the same grounds.

Mr. TAVENNER. Do you know Mrs. Luke Wilson?

Mrs. RODMAN. Yes; I do.

Mr. TAVENNER. Did she pay over to you any money for the benefit of the Communist Party?

Mrs. RODMAN. I refuse to answer that question on the same grounds.

Mr. TAVENNER. Do you know Mr. Irving Dudenberg?

Mrs. RODMAN. No.

Mr. TAVENNER. D-u-d-e-n-b-e-r-g?

Mrs. RODMAN. I never heard that name before.

Mr. TAVENNER. Have you made any contribution of funds to the Southern Conference for Human Welfare?

Mrs. RODMAN. I have.

Mr. TAVENNER. When was that?

Mrs. RODMAN. I regard contributions that my husband made as my contributions also. I don't recall whether I made any individual contributions, but I regard myself as having contributed to the Southern Conference.

Mr. TAVENNER. Regularly?

Mrs. RODMAN. No.

Mr. TAVENNER. Well, what is the extent of your contributions, the character of them?

Mrs. RODMAN. Over the period of years of its existence?

Mr. TAVENNER. Yes.

Mrs. RODMAN. Jointly with my husband, perhaps several thousand dollars.

Mr. TAVENNER. Has your husband likewise contributed, by the method which you mention, to the Communist Party?

Mrs. RODMAN. I refuse to answer that question on the grounds that it may tend to incriminate me.

Mr. TAVENNER. Did you at any time receive notice or information that campaign donations should be made to Henry Wallace's campaign instead of to the Communist Party?

Mrs. RODMAN. Will you repeat that, please?

Mr. TAVENNER. I will ask the question over. Did you receive information, or were you told, in 1947, that contributions intended for Communist purposes should be made to the Wallace campaign fund rather than to the Communist Party?

Mrs. RODMAN. I hesitate to answer the question because I don't see who would make such a request of me, and why particularly to me?

Mr. TAVENNER. Well, was such a request made?

Mrs. RODMAN. Not to my knowledge. I have never heard anyone speak of such a request, and I am a member of the Progressive Party.

Mr. TAVENNER. Do you know William Rosen?

Mrs. RODMAN. I refuse to answer that question on the same grounds.

Mr. TAVENNER. Do you know how many branches there are of the Communist Party in the District of Columbia?

Mrs. RODMAN. No.

Mr. TAVENNER. Have you at any time been a member of the Thomas Jefferson Club, or the Abraham Lincoln Club or the Northeast Club, or the Roosevelt Club of the Communist Party?

Mrs. RODMAN. I refuse to answer that question on the same grounds.

Mr. TAVENNER. Are you now a member of the Communist Party?

Mrs. RODMAN. I refuse to answer that question on the same grounds.

Mr. TAVENNER. Have you at any time been a member of the Communist Party?

Mrs. RODMAN. I refuse to answer that question on the same grounds.

Mr. TAVENNER. I have no further questions.

Mr. WOOD. Mr. Walter.

Mr. WALTER. You declined to answer the question of whether you knew William Rosen on the grounds it might incriminate you.

Mrs. RODMAN. Yes.

Mr. WALTER. What do you know about Mr. Rosen?

Mrs. RODMAN. I refuse to answer the question on the same ground.

Mr. WALTER. You certainly must associate Mr. Rosen with something that you feel would incriminate you if you knew about it. What is it you know about Mr. Rosen?

Mrs. RODMAN. I refuse to answer that question on the same grounds.

Mr. WALTER. Are you in business?

Mrs. RODMAN. Yes.

Mr. WALTER. Where do you do your banking?

Mrs. RODMAN. At the Second National Bank, G Street NW.

Mr. WALTER. And the contributions you have made to the Southern Conference for Human Welfare were made by checks drawn on that bank?

Mrs. RODMAN. Yes, sir.

Mr. WALTER. Whatever contributions you made to that movement and to the Henry Wallace Party were made by checks drawn on the Second National Bank?

Mrs. RODMAN. I believe so.

Mr. WALTER. Were they your checks or your husband's checks?

Mrs. RODMAN. They may have been mine or they may have been his, I don't recall.

Mr. WALTER. You have a joint account?

Mrs. RODMAN. No. We have separate accounts at the present time.

Mr. WALTER. That is all.

Mr. WOOD. Mr. Harrison.

Mr. HARRISON. When did you first start making contributions to the Southern Conference for Human Welfare, at the time of its organization, or did it go back that far?

Mrs. RODMAN. I believe it was when Mr. Clark Foreman, who was then executive secretary of the Southern Conference, brought the organization to our attention. Just what the date was, I don't recall. It may have been 3 or 4 years ago.

Mr. HARRISON. What did Mr. Foreman say to you that made you interested in contributing to this organization?

Mrs. RODMAN. Well, I was a social worker before I was married, and I was always interested in social problems. I was a social worker for 10 years. I am a Jew. I understand that problems of minority peoples, and of course I was interested in seeing that the Negro people have the same rights as all American citizens in this country. It is quite natural that I should be interested in the Southern Conference for Human Welfare.

Mr. HARRISON. Did anyone tell you that the Communist Party had an interest in the Southern Conference for Human Welfare and wanted contributions to it?

Mrs. RODMAN. No.

Mr. HARRISON. You continued to support it after it had been classified as a Communist-front organization; didn't you?

Mr. RODMAN. If those dates coincide, I expect I did. I don't know.

Mr. HARRISON. The fact it was a Communist-front organization did not affect your contributions?

(Witness confers with her counsel.)

Mrs. RODMAN. The designation or what other people think of a cause that I think is right would not make any difference to me.

Mr. HARRISON. Even though it might be a Communist-front organization, that wouldn't make any difference?

Mrs. RODMAN. No; it would not.

Mr. HARRISON. That is all.

Mr. WOOD. Mr. McSweeney.

Mr. MCSWEENEY. In the last 10 or 15 years, have you followed through to see where the contributions you make to organizations you belong to go? Have you followed through to see where the money you contribute goes?

Mrs. RODMAN. No; I have never found it necessary. When there are people sufficiently interested to devote their energies to social causes, I trust those people sufficiently to make my contributions and let it go at that.

Mr. MCSWEENEY. I ask that question because the money may filter to sources the contributing member does not know about.

Mrs. RODMAN. No; I make out checks very often for causes I read about in the newspapers because I believe in them.

Mr. MCSWEENEY. That is all.

Mr. WOOD. Mr. Velde.

Mr. VELDE. Mrs. Rodman, you have refused to answer several questions relative to your acquaintanceship with certain individuals. Would you refuse to answer the question as to all individuals you know?

Mrs. RODMAN. Before coming in here today, I considered the question of what I would do if you would ask me to identify knowing a large group of people. I know many people in this city because we have been active in many organizations. I came to the conclusion that if you asked me to do that I would, in turn, try to point out to you that in the present atmosphere, considering that the press has created such a hysterical situation, that it would be highly unfair of you to ask me to say whether I knew this person or that person, not only to me but perhaps to the other people, too.

Mr. VELDE. You say the press has created a hysterical situation. Will you explain that further?

Mrs. RODMAN. Well, you have read the newspapers, as I have, and you read President Truman's statement about the hysteria that has been created. I know, for example, and I don't know whether you people know it, but there are some poor working people who are members of as loyal an organization to the United States as the Progressive Party who are afraid of losing their jobs, and have lost their jobs, because of newspaper publicity, precisely because of this hysteria that the President has spoken of.

Mr. VELDE. Can you cite any specific examples of this hysteria by reason of statements in the press?

Mrs. RODMAN. The fact that people have been deprived of their livelihood because of it.

Mr. VELDE. Can you give any examples of innocent people being deprived of their livelihood because of publicity in the press?

Mrs. RODMAN. I cannot at the moment give the name of any person, but I can think at this moment, without remembering his name, that a few months ago the Progressive Party locally had some program which had to do, I believe, with segregation in the swimming pools, and I believe a young Negro boy who was on a picket line there, I didn't happen to be there at the time, his name appeared in the paper and the next day he lost his job.

Mr. VELDE. You don't remember the name?

Mrs. RODMAN. I don't remember his name.

Mr. VELDE. Coming back to your refusal to answer questions bearing on your acquaintanceship with certain individuals, you are acquainted with your lawyer, Mr. Durr, are you not?

Mrs. RODMAN. Yes.

Mr. VELDE. It is not a crime to know Mr. Durr?

Mrs. RODMAN. It is a pleasure to know Mr. Durr.

Mr. VELDE. Why would it be a crime to know Mr. William Rosen?

Mrs. RODMAN. I refuse to answer that question on the ground it may tend to incriminate me.

Mr. VELDE. That is all.

Mr. WOOD. I understood you to say that you and your husband, or one or both of you, had contributed several thousand dollars over the years to the Southern Conference for Human Welfare. Can you be more specific about how many thousands?

Mrs. RODMAN. It would be difficult. I would say perhaps \$3,000, but I couldn't be sure.

Mr. WOOD. You don't think it would be more than that?

Mrs. RODMAN. I don't think so. It may be. Not much more. My husband would know better.

Mr. WOOD. Do you know the approximate date of your last contribution to the Southern Conference for Human Welfare?

Mrs. RODMAN. No; I do not.

Mr. WOOD. Would it be this year?

Mrs. RODMAN. The Southern Conference for Human Welfare locally has closed its office for some time. I don't think it was this year.

Mr. WOOD. Could it be last year?

Mrs. RODMAN. Possibly.

Mr. WOOD. That is all.

Mr. TAVENNER. You stated you were engaged in business?

Mrs. RODMAN. Yes.

Mr. TAVENNER. What is the character of the business?

Mrs. RODMAN. My husband is a building constructor.

Mr. TAVENNER. That is all.

Mr. WOOD. You may be excused.

The committee stands adjourned until 10 o'clock tomorrow morning.

(Thereupon, at 12:15 p. m., on Tuesday, June 28, 1949, an adjournment was taken until Wednesday, June 29, 1949, at 10 a. m.)

(Testimony of Samuel J. Rodman (accompanied by his counsel, Clifford J. Durr) is as follows:)

Mr. TAVENNER. You are Mr. Samuel J. Rodman?

Mr. RODMAN. Yes, sir.

Mr. TAVENNER. Are you represented by counsel?

Mr. RODMAN. Yes, sir.

Mr. TAVENNER. Will counsel state his name for the record?

Mr. DURR. Clifford J. Durr, 1625 K Street, Washington, D. C.

Mr. TAVENNER. Mr. Rodman, you are appearing before the committee this morning by virtue of a subpoena served upon you by Mr. C. E. McKillips, investigator for this committee, are you not?

Mr. RODMAN. Yes, sir.

Mr. TAVENNER. This subpoena was originally served upon you on June 24, 1949, and called for your appearance before the committee on June 28, 1949.

At that time the committee was informed that you had a recurrence of a back injury and your appearance was postponed. That is true, is it not?

Mr. RODMAN. Yes, sir.

Mr. TAVENNER. And on July 25, 1949, the committee, by telegram addressed to you at 117 North Claremont Street, Atlantic City, N. J., requested your appearance pursuant to subpoena on this date?

Mr. RODMAN. Yes, and I replied I would be here.

Mr. TAVENNER. When and where were you born?

Mr. RODMAN. I was born February 12, 1898, at Joppa, Palestine.

Mr. TAVENNER. What is your present address?

Mr. RODMAN. 3700 Massachusetts Avenue NW.

Mr. TAVENNER. Are you a naturalized American citizen?

Mr. RODMAN. Yes, sir.

Mr. TAVENNER. When and where were you naturalized?

Mr. RODMAN. In the district court of New Jersey in New Brunswick, N. J., in 1927.

Mr. TAVENNER. Are you married?

Mr. RODMAN. Yes, sir.

Mr. TAVENNER. What is your wife's name?

Mr. RODMAN. Bella Rodman.

Mr. TAVENNER. Did Mrs. Bella Rodman appear before this committee within the last 30 days?

Mr. RODMAN. Yes; she did.

Mr. TAVENNER. Is she the same person who, when questioned concerning her Communist activities, refused to answer on the ground that to do so might tend to incriminate her?

Mr. RODMAN. I believe that is part of the record.

Mr. TAVENNER. Mr. Rodman, what is your occupation?

Mr. RODMAN. I am a builder.

Mr. TAVENNER. Will you state for the committee, briefly, the record of your employment?

Mr. RODMAN. Starting when?

Mr. TAVENNER. Well, let's say from the completion of your education.

Mr. RODMAN. I was graduated from Columbia University in 1923 and entered the field of social work. I was connected with the YMHA as an executive director.

Mr. TAVENNER. Will you state what those letters indicate?

Mr. RODMAN. The "H" is a substitute for "C" in YMCA. It is the Young Men's Hebrew Association, the equivalent to the Young Men's Christian Association. I served in that capacity until 1932 in Perth Amboy, N. J. I was in Perth Amboy from 1927 to 1932. If you wish, I will fill in from 1923 to 1927.

Mr. TAVENNER. Very well.

Mr. RODMAN. In 1923 I was in Chattanooga, Tenn.

From 1923 to 1925 I was in Canada, with headquarters in Montreal, Canada, doing similar Jewish work.

In 1932 I completed my work in Perth Amboy, N. J., and went abroad. Among countries I went to was Soviet Russia, where I was engaged in journalism for 6 years.

When I came back to this country I settled in New York for 1 year and then came to Washington and entered business, and have been in business here ever since.

Mr. TAVENNER. What official positions do you now hold in business firms?

Mr. RODMAN. I will be very happy to answer that question in camera, but this being an open session, and you are entering into questions having to do with my business dealings, I would like to know what my rights are. I understand on political questions I should be asked questions and answer them. On business affairs that are of a private nature I just wonder if the press ought to be permitted to be present. Whatever way it turns out it probably will be a smear on my business connections, because people are fearful. There is a sort of hysteria prevailing in the country. I say in all earnestness, I am not trying to be smart-alecky about it. I respect the committee and I know the committee respects my rights; I have not consulted counsel, but I feel my request is a reasonable one.

Mr. WALTER. What is your request?

Mr. RODMAN. I will not question the right of any congressional committee to go into my personal affairs, but I don't think it should be done in a public session, because that would be punishment by publicity. I am quoting from an editorial

in the Washington Post, it would be punishment by publicity. I don't think that is the intention of this committee.

Mr. WALTER. I don't think you would be justified in reaching that conclusion from the question just asked you.

Mr. RODMAN. A great many business associates I do business with may jump to the conclusion, after this hearing and newspaper reports, that "this person with whom you are dealing is not worthy of being dealt with," unjustly so, but unfortunately that is the situation prevailing. We pay lip service to the idea a man is innocent until proven guilty, and we fall down on that.

Mr. VELDE. Do you fear the newspapers will misquote you?

Mr. RODMAN. It is not what the newspapers will do by misquoting. It is the misinterpretation of people reading the report. I have been a newspaperman, so I can speak freely on that. The printed word has a magic power. The mere fact that I am appearing before you will hurt me. I don't say that is your purpose in bring me here, but that is exactly what is going to happen to me.

Mr. WALTER. I suggest you withdraw that question for a moment and proceed with the next question.

Mr. TAVENNER. Very well, sir.

Mr. Rodman, do you now hold a position, or have you held a position, as a functionary of the Communist Party in the District of Columbia?

Mr. RODMAN. I do not now hold it. I never did hold it.

Mr. TAVENNER. Are you now a member of the Communist Party?

Mr. RODMAN. I am not now a member nor ever was a member of the Communist Party.

Mr. TAVENNER. I believe you stated that you were in Russia. What was the period of your sojourn in Russia?

Mr. RODMAN. From July of 1932, I believe, until November 1938, with intermittent periods of vacation in this country and throughout Europe.

Mr. TAVENNER. You stated you were engaged in journalistic work there?

Mr. RODMAN. Yes, sir.

Mr. TAVENNER. Were you the representative of certain newspapers?

Mr. RODMAN. Yes, sir. I represented Business Week of New York as the special correspondent. I was the fully accredited correspondent of the News Chronicle of London and of the Exchange Telegraph of London.

Mr. TAVENNER. Did you also represent the London Observer?

Mr. RODMAN. Yes; I did.

Mr. TAVENNER. Why did you leave the employment of the London Observer?

Mr. RODMAN. I never left the employment of the London Observer until I relinquished my relationship with the rest of the work.

Mr. TAVENNER. Did the London Observer complain to you that your articles were too pro-Soviet in tone?

Mr. RODMAN. Never; but I would like to volunteer this bit of information to you: At a luncheon which I had in London with Mr. Garvin, now deceased, well-known editor of the London Observer, we discussed the question of Russian propaganda, and he said to me: "I have heard from one member of the staff that your articles are rather friendly to the Soviet Union; that they are pro-Russian." And Mr. Garvin said: "That is nonsense. Whenever we talk whatever we say, we are always propagandizing when we talk."

Mr. TAVENNER. By that do you mean you were propagandizing Soviet Russia?

Mr. RODMAN. No. By that I mean that both Garvin and I realized that whenever we talk, whatever we say, may be interpreted by someone else one way or another.

Mr. TAVENNER. Were you at one time employed by the United Nations Relief and Rehabilitation Administration?

Mr. RODMAN. UNRRA; yes. During the war, by virtue of my wide social work experience, I was approached by members of UNRRA and asked would I not join them, they needed people of experience, ought I not to leave my business in time of war and do something socially useful, as they put it. I went for an interview and that same afternoon I was placed in charge of displaced-persons activities in Yugoslavia, and for purposes of that job I was sent across to Cairo.

Mr. TAVENNER. For what period were you in charge of that work?

Mr. RODMAN. About a year, I believe.

Mr. TAVENNER. When?

Mr. RODMAN. I believe from March 1944, and I came back from Cairo about March 15, 1945. The reason I returned, the job never materialized because Tito

would not have UNRRA people in his country; he was going to permit only a few observers.

Mr. TAVENNER. Were you ever on the mailing list of the Washington chapter, American Youth for Democracy?

Mr. RODMAN. I don't recall. I am on the mailing list of many organizations.

Mr. TAVENNER. Were you a member of the executive board of the Washington Committee of the Southern Conference for Human Welfare?

(Representative Nixon enters.)

Mr. RODMAN. Yes, sir.

Mr. TAVENNER. During what period of time?

Mr. RODMAN. If my memory serves me correctly, I would say 1945 to 1947 or 1948, when the chapter became inactive.

Mr. TAVENNER. Since that period of time, what connection, if any, have you had with the Southern Conference for Human Welfare?

Mr. RODMAN. None, because the Southern Conference for Human Welfare is not a functioning organization, as distinguished from the Southern Conference Educational Fund.

Mr. TAVENNER. Are you a member of the Washington Book Shop?

Mr. RODMAN. No, sir.

Mr. TAVENNER. Have you at any time been a member of the Washington Book Shop?

Mr. RODMAN. I refuse to answer that question—the Washington Book Shop is on the subversive list—on the ground it may tend to incriminate me.

Mr. TAVENNER. Do you know whether the Washington Book Shop issues membership cards?

Mr. RODMAN. I don't know.

Mr. TAVENNER. Did you ever hold such a card?

Mr. RODMAN. I don't recall having such a card.

Mr. TAVENNER. Have you ever been a member of the Friends of the Soviet Union?

Mr. RODMAN. I refuse to answer on the same grounds stated.

Mr. TAVENNER. You stated that you had been a member of the Communist Party. Have you at any time engaged in Communist Party activities?

Mr. RODMAN. What would that mean?

Mr. TAVENNER. Have you attended any Communist Party meetings?

Mr. RODMAN. Public meetings?

Mr. TAVENNER. Yes.

Mr. RODMAN. Such as held at the National Press Club?

Mr. TAVENNER. Yes; any type of public meeting.

Mr. RODMAN. I would refuse to answer that question on the grounds of self-incrimination; it may tend to incriminate me.

Mr. TAVENNER. Have you attended any private Communist Party meetings?

Mr. RODMAN. Definitely no.

Mr. TAVENNER. Have you made any contributions, through your wife, for use by the Communist Party?

Mr. RODMAN. I refuse to answer that question on the same grounds.

Mr. TAVENNER. Have you made any contributions through other persons for use by the Communist Party?

Mr. RODMAN. I refuse to answer on the same grounds.

Mr. TAVENNER. Have you made contributions to the Southern Conference for Human Welfare?

Mr. RODMAN. I did.

Mr. TAVENNER. When and in what amounts?

Mr. RODMAN. Intermittently, in the course of 3 or 4 years, perhaps \$3,000.

Mr. TAVENNER. Beginning when?

Mr. RODMAN. If my memory serves me correctly, beginning about 1944 or 1945.

Mr. TAVENNER. Mr. Rodman, I show you a photostatic copy of a throwaway which is undated and which reflects that Samuel J. Rodman, Moscow correspondent for the Philadelphia Public Ledger and London Times-Telegram, who has lived in Russian factory communities and on collective farms for the past 5 years, will tell of his experiences.

The throwaway also states:

"Labor in Soviet Russia. What has happened to workers in Soviet Russia now while in other countries wages have been constantly dropping, and unemployment has been increasing?"

According to the committee's information, this meeting was held under the auspices of the Washington Branch, Friends of the Soviet Union, and the throw-

away so states, on March 22, 1934, in the Typographical Temple, 423 G Street NW, room 12.

Did you make the speech advertised in this throwaway sheet?

Mr. RODMAN. You notice that the photostatic copy does not have the year on it. It says March 22, 8:15 p. m. You say it is 1934. I have a vague recollection that I did; yes.

Mr. TAVENNER. I desire to offer that sheet in evidence and mark it "Exhibit Rodman 1."

Mr. WALTER. It will be received.

Mr. TAVENNER. Mr. Rodman, did you at one time, particularly during the year 1939, reside at 3901 46th Street, Queens County, N. Y.?

Mr. RODMAN. I did.

Mr. TAVENNER. Mr. Rodman, I now show you a photostatic copy of a nominating petition for councilman, which states:

"I, the undersigned, do hereby state that I am a duly qualified voter of the borough for which a nomination for councilman is hereby made, and have registered as a voter within the said borough within the past 18 months; that my place of residence is truly stated opposite my signature hereto and that I intend to support at the ensuing election, and I do hereby nominate the following-named person as a candidate of the Communist Party for nomination for councilman to be voted for at the election to be held on the 7th day of November 1939."

This petition, Mr. Rodman, contains the signatures of five persons, among them being Samuel J. Rodman and Bella Rodman, both of 3901 46th Street, Queens County, N. Y. Do you recall signing this petition?

(Witness confers with counsel.)

Mr. RODMAN. Yes; I recall signing it. This was in 1939, Mr. Tavenner.

Mr. TAVENNER. Yes, sir.

Mr. Chairman, I offer this paper in evidence and ask that it be marked "Exhibit Rodman 2."

Mr. WALTER. At the time you signed that petition, were you a member of the Communist Party?

Mr. RODMAN. I stated I never was and am not now a member of the Communist Party.

Mr. WALTER. Under the laws of the State of New York, is it necessary to be a member of the party in order to sign a nominating petition for a candidate on the Communist ticket?

Mr. RODMAN. So far as I know, no.

Mr. WALTER. It will be received.

Mr. TAVENNER. Mr. Rodman, have you ever held an interest in the Housing Development Corp., which I believe is located at Dayton, Ohio?

Mr. RODMAN. No, sir.

Mr. TAVENNER. Did you ever have any connection with that enterprise?

Mr. RODMAN. No, sir.

Mr. TAVENNER. Are you acquainted with Mr. Herbert Benjamin?

Mr. RODMAN. Yes; I am acquainted with Mr. Herbert Benjamin.

Mr. TAVENNER. Do you rent your office space from him?

Mr. RODMAN. Not now.

Mr. TAVENNER. Did you formerly?

Mr. RODMAN. For a short time; yes.

Mr. TAVENNER. During what period of time?

Mr. RODMAN. For about 60 days when I needed an office in town for a short time. He had a lease and was not using it, and I took it until its expiration.

Mr. TAVENNER. When was that?

Mr. RODMAN. I believe it was in April of this year to June 1 of this year.

Mr. TAVENNER. Were you closely associated with Mr. Benjamin?

Mr. RODMAN. No, sir.

Mr. TAVENNER. Were you well acquainted with him?

Mr. RODMAN. I think I knew him well; yes.

Mr. TAVENNER. Well, was he a close friend of yours?

Mr. RODMAN. Yes: I would call him a friend.

Mr. TAVENNER. Was he at any time a member of the Communist Party?

Mr. RODMAN. I would not know except that I know he was engaged in Communist activities.

Mr. WALTER. Just what do you mean by that?

Mr. RODMAN. If I am not mistaken, Mr. Benjamin was a member of the higher echelon of the party. I don't know. I think he might have been at one time a member of the executive committee, or whatever it may be called, of the party.

Mr. TAVENNER. Are you acquainted with a Mr. Katenkamp, K-a-t-e-n-k-a-m-p?

Mr. RODMAN. Of where?

Mr. TAVENNER. Of Baltimore.

Mr. RODMAN. Yes. We went to school together many years ago. He is principal of City College of Baltimore now, I understand.

Mr. TAVENNER. Did you at one time request Mr. Katenkamp to sign a petition against the Communist-control bill known as the Ober bill, which was passed by the Maryland State Legislature?

Mr. RODMAN. No. I haven't seen Mr. Katenkamp since I left school, I believe in 1917.

Mr. TAVENNER. You say you have not seen him?

Mr. RODMAN. And have not talked to him.

Mr. TAVENNER. And have not talked to him.

Mr. RODMAN. And have not asked him anything.

Mr. TAVENNER. What did you say was Mr. Katenkamp's position in Baltimore?

Mr. RODMAN. I believe I have heard he was principal of Baltimore City College.

Mr. TAVENNER. Mr. Chairman, the committee has subpoenaed the toll slips relating to certain long-distance telephone calls made by Mr. Rodman. One of these calls was made to the board of school commissioners, Secondary School No. 408, Baltimore City College, senior high office.

Mr. Rodman, what was the purpose of this call?

(Witness confers with counsel.)

Mr. WALTER. I think you had better identify it more definitely.

Mr. TAVENNER. Do you remember placing that call?

Mr. RODMAN. Yes; I remember placing the call. I am opposed to the Ober bill, of course. I remember placing a call to Mr. Katenkamp, but I have never seen Mr. Katenkamp since 1917. When the call was placed he was at a convention, I believe they said in Louisville.

Mr. TAVENNER. About when was that?

Mr. RODMAN. I think it might have been in April.

Mr. TAVENNER. Of 1949?

Mr. RODMAN. You have the date.

(Representative Wood enters.)

Mr. TAVENNER. Of 1949?

Mr. RODMAN. Of 1949. It might have been in May.

Mr. TAVENNER. Mr. Rodman, were you at one time associated with the International Labor Defense?

Mr. RODMAN. I refuse to answer on the grounds of self-incrimination.

Mr. TAVENNER. Mr. Rodman, are you acquainted with Mr. Martin Chancey?

Mr. RODMAN. I refuse to answer on the same grounds.

Mr. TAVENNER. Did you ever discuss Communist Party affairs with him?

Mr. RODMAN. I refuse to answer on the same grounds.

Mr. TAVENNER. Was Mr. Martin Chancey known to you as the secretary of the Communist Party of the District of Columbia?

Mr. RODMAN. I refuse to answer on the same grounds.

Mr. TAVENNER. Were you a sponsor of the Washington Committee to Win the Peace?

Mr. RODMAN. I refuse to answer on the grounds indicated above.

Mr. TAVENNER. Mr. Rodman, did you sign a petition which was published in a local newspaper against the passage of the subversive control bill, which was popularly referred to as the Mundt-Nixon bill?

Mr. RODMAN. Yes; I certainly did.

Mr. TAVENNER. Why were you opposed to the passage of legislation which would control subversive activities in this country, when the need for legislation had been amply demonstrated?

Mr. RODMAN. Amply demonstrated by whom?

Mr. TAVENNER. In part by this committee and by the hearings we have been conducting.

Mr. RODMAN. Mr. Tavenner, I respect this committee a great deal, but I may differ with them in what they regard as amply demonstrated.

Mr. TAVENNER. What was your purpose in opposing the passage of the bill?

Mr. RODMAN. Because I felt it would become an unconstitutional bill, and it would hamper the rights of people whose rights should be protected.

Mr. TAVENNER. Mr. Rodman, before you became employed by UNRRA, did you engage in the business of selling heavy construction equipment to European countries?

Mr. RODMAN. Well, I wouldn't say that I engaged in that business, but for a short time I investigated the possibilities of doing such a thing. I don't even think I had printed stationery.

(Representative Nixon leaves.)

Mr. TAVENNER. Did you actually engage in making any sales?

Mr. RODMAN. No.

Mr. TAVENNER. Did you go to the extent of obtaining a license to go into that business?

Mr. RODMAN. No. I simply looked into the possibility.

Mr. TAVENNER. Mr. Rodman, information has come to the attention of the committee that you have applied for, and I believe obtained, three rather large loans through the Federal Housing Administration; that is, that you applied to the Federal Housing Administration for insurance for three rather large mortgage loans. Is that correct?

(Witness confers with counsel.)

Mr. RODMAN. That is a matter of record, Mr. Tavenner, but again I request the privilege I requested at the early part of this hearing, that anything pertaining to my private business, that has nothing to do with politics, I earnestly ask that it be treated in camera.

Mr. TAVENNER. Have you answered the question as to whether you did or did not?

Mr. RODMAN. It is a matter of public record. The answer is "Yes."

Mr. TAVENNER. Mr. Chairman, I might state, in connection with the Federal Housing Administration's part in the granting of these loans, that the Federal Housing Administration, under the law, is not empowered to make investigations of persons applying for FHA-backed loans other than from a financial stability standpoint.

Mr. WALTER. What is the relevancy of that?

Mr. TAVENNER. The relevancy would be that loans are being backed by the Federal Housing Administration with investigations only as to financial stability rather than as to other matters.

Mr. VELDE. I take it from that, Mr. Tavenner, that the FHA will make loans to aliens or subversives or disloyal citizens?

Mr. TAVENNER. It would appear that they are not required or empowered to make any investigations as to a man's subversive activities or his Communist Party membership.

Mr. WALTER. In other words, the same test is applied that a banking institution applies when it makes a loan to a customer of the bank?

Mr. TAVENNER. Yes, sir.

Mr. RODMAN. I might interpose, Mr. Walter, and Mr. Chairman, that those loans are made by private institutions. The Federal Housing Administration simply insures the loans. It is strictly a banking proposition and nothing else, and it is for that reason I have asked twice, now, that on these matters please let me answer—I will be glad to answer anything pertaining to my business, but let us discuss them privately.

Mr. TAVENNER. I have no further questions, Mr. Chairman.

Mr. WALTER. Any questions, Mr. Wood?

Mr. WOOD. No.

Mr. WALTER. Mr. Velde?

Mr. VELDE. No questions.

Mr. DUBB. Is Mr. Rodman excused?

Mr. WALTER. Unless there are any further questions.

Mr. TAVENNER. I have no further questions.

Mr. WALTER. You are excused, Mr. Rodman.

The CHAIRMAN. I might say this: one of the questions asked Mrs. Rodman was:

Are you connected in any way with what is known as the sustaining fund of the Communist Party of the District of Columbia?

Her answer:

I refuse to answer that question on the grounds it may tend to incriminate me.

And then the question was asked:

Has your husband likewise contributed by the method you mentioned to the Communist Party?

Mrs. RODMAN :

I refuse to answer that question on the grounds it may tend to incriminate.

Senator PAYNE. Mr. Chairman, as you go through you will find a question was asked with reference to a contribution to a group in the South that is listed on the un-American activities list. There was no hesitation in answering the question that there was, and I think if my memory serves, in reading that, or in scanning that, the amount was something around \$3,000.

There is no hesitation in answering there, yes or no. I am concerned about this, where funds of the United States Government are concerned. At the time this took place, there was no knowledge whatsoever of the fact that Mr. Rodman or his wife either were in any way connected with any of these housing situations, but here we have a case involving a housing situation, and I think it is pertinent.

The CHAIRMAN. On page 763, the question was asked of this witness before us at the moment—

Have you made any contributions to other persons for use by the Communist Party?

And Mr. Rodman, the witness before us said :

I refuse to answer on the same grounds.

We will place the testimony before the committee in the year 1949, in the record at this time, unless there is objection.

Mr. VAN ARKEL. Senator, I have no objection but I would like to have one observation in the record: I think if you will examine Mr. Rodman's testimony there, he was asked whether or not he was or had ever been a member of the Communist Party, and that his answer to that question was "No."

Senator PAYNE. Yes, sir. He did. He answered that. I will say that, Mr. Rodman did answer that question but Mrs. Rodman did not.

Mr. VAN ARKEL. I wasn't present, Senator. I can't speak for Mrs. Rodman.

The CHAIRMAN. I haven't read this so I do not know but we will place all of the testimony in the record and then it will become a public record and anyone can read it. It becomes pertinent to this inquiry only because Mrs. Rodman, your wife Bella, is a partner in one of these—one or more of these section 608 projects.

Mr. RODMAN. Was a partner.

The CHAIRMAN. Was a partner.

Mr. RODMAN. Was a partner; yes.

The CHAIRMAN. We will now proceed, unless there are some further questions on this subject.

Senator MAYBANK. Was she a partner at the time this hearing went on?

Mr. RODMAN. At the time of the hearing? No. As far as I recall, no.

Senator PAYNE. When did you sell out?

Mr. RODMAN. I sold out in April 26, 1950.

Senator PAYNE. These hearings were held in 1949, were they not?

The CHAIRMAN. June 28, 29, July 6, 12, 28, 1949.

Senator PAYNE. In 1949, and the project was undertaken sometime between 1947 and 1949, is that correct?

Mr. RODMAN. I stand corrected, according to the date.

Senator PAYNE. So she was a member of the corporation at that time.

The CHAIRMAN. Let me ask you, Mr. Rodman: Prior to your entering into the construction or the sponsoring of Atlantic Gardens and Chesapeake Gardens had you ever been in the building business?

Mr. RODMAN. Yes. I was the president of the K & B Realty Co., which remodeled a large building near the White House. I had built houses, on which I lost some money in the suburbs of Virginia, Tauxemont.

The CHAIRMAN. What year was that?

Mr. RODMAN. If I recollect it was about 1942 or 1943; the K & B Realty, about 1945 or 1946—those are my building experiences.

The CHAIRMAN. Prior to that time, what was your experience?

Mr. RODMAN. You mean what I earned a living on?

The CHAIRMAN. Yes; in other words, what was your experience prior to building these houses that you say you built?

Mr. RODMAN. Well, ever since I left college I did a number of things. I was in social work, I was a newspaperman.

The CHAIRMAN. Where?

Mr. RODMAN. I was in business.

The CHAIRMAN. Where were you a newspaperman, what town?

Mr. RODMAN. Newspaperman from 1932 to 1938, spending most of my time on behalf of Business Week of New York, a newspaper of London, the New Chronicle, as their correspondent in Moscow.

The CHAIRMAN. Prior to that time, you were in college?

Mr. RODMAN. I was a social worker, with YMHA. Prior to that, I was in college.

Senator PAYNE. In complete fairness to Mr. Rodman on this, because I want to be fair, counsel could direct a question as to whether or not Mr. Rodman did not answer that question with reference to any affiliation with the Communist Party. I stated that. I think in view of fairness to Mr. Rodman, in view of the fact that the testimony of Mrs. Rodman is being made a part of this record, I think Mr. Rodman's testimony should be made a part of the record likewise so it will show the position Mr. Rodman was in as of that time. I am sorry to break in. I ask for that privilege, but I have got to go over to the Senate floor.

The CHAIRMAN. Mr. Rodman, have you ever contributed to any communistic organizations or causes?

Mr. VAN ARKEL. Senator, again, it seems to me this is getting awfully far afield from the subject of this inquiry.

The CHAIRMAN. Well, the witness doesn't need to answer. If he did, the answer is yes, if he didn't the answer is no.

Mr. RODMAN. Senator, suppose I answered no, and in due time it is discovered that certain organizations that did get some contributions were placed on the subversive list. Wouldn't I be a fool not to use my constitutional rights to refuse to answer that?

The CHAIRMAN. I withdraw the question.

Senator PAYNE. And the testimony of Mr. Rodman will be included.

Mr. RODMAN. I appreciate your fairness, Senator Payne.

The CHAIRMAN. I will withdraw the question. Counsel may proceed.

Mr. SIMON. Mr. Rodman, how much did you and your brother and your wives pay for these 40 acres of land?

Mr. RODMAN. The record will show \$113,000.

Mr. SIMON. Is that what you paid?

Mr. RODMAN. Yes.

Mr. SIMON. When you divided this land up, how many acres did you get?

Mr. RODMAN. I think about 12.

Mr. SIMON. How many—by "you," I take it you mean you and your wife got 12 acres.

Mr. RODMAN. Yes.

Mr. SIMON. How many acres did your brother get?

Mr. RODMAN. We started off by selling off some of it. He must have gotten 13 or 14 if I recollect.

Mr. SIMON. Then he sold about 15 acres.

Mr. RODMAN. Probably.

Mr. SIMON. How much did you get for the 15 acres you sold?

Mr. RODMAN. I submitted a detailed account as drawn up by our accountants on a footage basis, and it is a part of the record. I haven't got it with me.

Mr. SIMON. Roughly how much did you get for that 15 acres?

Mr. RODMAN. I haven't got the record with me. I am sure you have it because I gave it to your investigator.

Mr. SIMON. It was about \$75,000, wasn't it?

Mr. RODMAN. Probably, I don't know.

It may have been that.

Mr. SIMON. How much did Atlantic Gardens 1 pay for that acreage which went into the Atlantic Gardens 1?

Mr. RODMAN. I don't have the records with me but probably about \$7,000.

Mr. SIMON. Did you sign the application to FHA for the mortgage commitment on section 1?

Mr. RODMAN. I think I did.

Mr. SIMON. And in that application did you value this land at \$25,000?

Mr. RODMAN. It isn't a case of my valuing it.

FHA valued it at that. They accepted the evaluation.

Mr. SIMON. I am not asking you what value FHA gave it. I am asking you what value you put on it.

Mr. RODMAN. If that figure appears there that is the valuation I gave and today this land is worth five times that much.

Mr. SIMON. This application was filed in 1947?

Mr. RODMAN. All right.

Mr. SIMON. And the corporation paid you \$7,000 for it?

Mr. RODMAN. If I recollect, that is right.

Mr. SIMON. And in the application, you put a value of \$25,000 on it; is that right?

Mr. RODMAN. Do you know the land values have a way of jumping in inflationary periods?

Mr. SIMON. I merely wanted to find out—

Mr. RODMAN. You are trying to draw a conclusion.

Mr. SIMON. I am merely trying to get the facts.

Mr. RODMAN. I am merely trying to say this is not a fair way of getting at the facts. What you should ask me is, Did your land enhance in value from the time you bought it and the time you were going to build on it, an FHA project?

Mr. SIMON. The chairman will have to rule that it is a fair question and ask you exactly what you paid for it. It is a fair question to ask you exactly what you sold it for.

Mr. RODMAN. It wasn't put that way, my friend.

Mr. SIMON. There is no dispute, is there, that the corporation paid about \$7,000 for the land and you said in your FHA application that it was worth \$25,000?

Mr. RODMAN. And I truthfully said it was worth \$25,000 and I made more such purchases later.

Mr. SIMON. Now, section 2, did you there say or did you similarly value the land at substantially more than you paid for it?

Mr. RODMAN. Yes, sir, invariably.

Mr. VAN ARKEL. Mr. Chairman, I wonder if the witness might be allowed to explain the reason for this increased valuation?

The CHAIRMAN. He may; if he thinks it will be helpful to us, he may.

Mr. RODMAN. It depends on what you are looking for.

The CHAIRMAN. We are just looking for the facts.

Remember this, Mr. Rodman, that the FHA—the Federal Government—you and me, the taxpayers—have guaranteed all these mortgages, meaning that if they go sour, or if they don't pay out, that the Federal Government must pick them up. It must reimburse the owner of the mortgage, whoever happens to be the owner of the mortgage.

We believe in the private enterprise system in America and we want to see everybody make a profit, but we don't think, frankly, that you ought to make a profit until such time as the Federal Government has been relieved of its obligation on the mortgage.

Mr. RODMAN. In other words, builders who went into the FHA section 608 should wait 30 years before they realize a profit?

Mr. SIMON. When did you sell section 1?

Mr. RODMAN. I am talking about the mortgages which run for 30 years.

The CHAIRMAN. You sold it, did you not?

Mr. RODMAN. I happened to sell section 1 and section 2.

The CHAIRMAN. What did you sell it for?

Mr. RODMAN. I gave the figures approximately a little while ago.

Mr. SIMON. You gave us the figure only on the extent to which the mortgage exceeded the cost of construction. Now, when you sold it, 2 years later—

The CHAIRMAN. How much did you sell it for?

Mr. RODMAN. I don't have the exact figures with me—

The CHAIRMAN. Approximately. You can get the exact figures later.

Mr. RODMAN. I made a profit of approximately \$90,000 on section 1 and section 2.

Mr. SIMON. That is in addition to the \$125,000 mortgaging out?

Mr. RODMAN. Oh, no.

Mr. SIMON. You told us a minute ago that on section 1—

Mr. RODMAN. Don't you see? When I sold the person who bought my stock had to pay me half of my—half of what we made, and it came to about \$90,000.

Mr. SIMON. Is what you are telling us this: that you mortgaged out \$125,000, but you only owned 50 percent of the stock?

Mr. RODMAN. Yes.

Mr. SIMON. And you then sold your 50 percent of the stock for \$90,000; is that right?

Mr. RODMAN. As I said in the beginning, I don't have the figures with me, because the projects were sold. I only have the sum total of what I got out of it after it was sold. Those were vague figures in my mind. I made money on sections 1 and 2.

There is no question about it, and when I sold it.

Mr. SIMON. You sold your half interest for \$90,000?

Mr. RODMAN. Yes; I believe so.

Mr. SIMON. That would be roughly \$30,000 above the mortgaging-out proceeds; is that right?

Mr. RODMAN. Something like that.

The CHAIRMAN. Mr. Rodman, you take the position some of these questions are unfair. Let me ask you this:

Would you have been able to build these projects had FHA not guaranteed the mortgage?

Mr. RODMAN. Let me ask you this—

The CHAIRMAN. Answer my question, please.

Mr. RODMAN. No, I wouldn't; but are you aware of the fact that the moneys that the insurance companies loaned us, that made this building possible, that to this day mortgage—project owners pay in interest and amortization more than 50 to 60 percent of their intake?

It keeps money rolling.

The CHAIRMAN. Rolling where?

Mr. RODMAN. For loans and for construction, and jobs. You mustn't overlook that, either. I frankly believe that as a sponsor and builder I made a contribution to our country and I hope to continue to do it, in providing work for others, and making money for myself if I can, honorably.

The CHAIRMAN. The law, of course, said 90 percent.

You were to put 10 percent of your own money into these projects. You put no money into these projects except \$1,000.

Mr. RODMAN. Senator, throughout these hearings for weeks you have been through that over and over again. The law said that, but what about the risk element?

Some people lost money in building projects. Some made money.

The CHAIRMAN. How do you know?

Mr. RODMAN. I have heard of builders who lost money.

The CHAIRMAN. Do you know of any of your own accord?

Mr. RODMAN. Of builders who lost money?

The CHAIRMAN. Yes.

Mr. RODMAN. I know of my own accord of builders who talked to me in the course of time, telling me they lost money.

Mr. SIMON. Mr. Rodman, in section 3, how many acres of land went into section 3?

Mr. RODMAN. In section 3; I am going to be much more explicit because I still own it.

Mr. SIMON. Very well.

How many acres of land went into section 3?

Mr. RODMAN. If I am not mistaken a little over 51½.

Mr. SIMON. This is out of this 40-acre tract and you made \$113,000 for the whole tract?

Mr. RODMAN. That is correct.

Mr. SIMON. What valuation did you give FHA for that 5½ acres?

Mr. RODMAN. If I am not mistaken, \$88,000.

Mr. SIMON. I have here an application which purports to bear your signature, and ask you whether it doesn't contain a valuation of \$145,800?

Mr. RODMAN. I would like to see it.

(Document handed to witness.)

Mr. SIMON. The land valuation is in the right-hand column near the top of the page.

Mr. VAN ARKEL. Right at the top?

Mr. SIMON. The left-hand side as you sit there, your left-hand near the top of the page, and your signature is at the bottom of the next page.

Does that show a land valuation of \$145,800?

Mr. RODMAN. Presumably that was my valuation for purposes of filing the application.

The CHAIRMAN. You say presumably? Does it or does it not? Please answer the question.

Mr. RODMAN. Yes, I will be glad to.

The CHAIRMAN. When the information is before you, you don't need to say presumably.

Mr. RODMAN. Yes, it does.

The CHAIRMAN. Did you sign the application?

Mr. RODMAN. Yes, I did.

The CHAIRMAN. Thank you, sir.

Mr. SIMON. What was the amount of the mortgage in that case?

Mr. RODMAN. \$1,458,000, the figure states.

Mr. SIMON. Who built the project?

Mr. RODMAN. Chesapeake Construction Corp.

Mr. SIMON. Who were the stockholders of Chesapeake Construction?

Mr. RODMAN. I am the principal stockholder.

Mr. SIMON. Who were the other stockholders?

Mr. RODMAN. At the time, I believe Mrs. Rodman was a stockholder with me.

Mr. SIMON. Just the two of you?

Mr. RODMAN. Yes, as I recollect.

Mr. SIMON. What was the contract between the sponsoring corporation and the building corporation for the construction of that building?

Mr. RODMAN. \$1,370,986, for the construction of the apartment project, which included the building equipment and certain improvements charged to the cost of the land.

Mr. SIMON. What was the profit that Chesapeake Construction Co. made out of the building contract?

Mr. RODMAN. It was our own corporation. I would hardly be able to answer that question. You presumably come to the question of what was the excess of the mortgage over the cost and I have that, and that presumably is what you will be looking for.

The CHAIRMAN. What is the difference between the proceeds of the mortgage and the actual cost of the project?

Mr. RODMAN. \$172,696.40.

Mr. SIMON. Mr. Rodman, does that figure include the profits of the construction company, or is it merely the profits of the sponsoring company?

Mr. RODMAN. That would include the profits of both.

Mr. SIMON. That is on a—

Mr. RODMAN. If I am correct.

Mr. SIMON. Are you correct?

Mr. RODMAN. Judging by the figures here that I have from my accountant, yes.

Mr. SIMON. In computing that difference of \$172,000, how much did the sponsoring corporation pay you personally for the land?

Mr. RODMAN. I stated, \$88,000.

Mr. SIMON. Are you sure it wasn't \$106,431?

Mr. RODMAN. No; the difference accounted for improvements to the land—sewer, streets, and so forth, which came to \$18,424.

Mr. SIMON. What was your cost of those 5 acres?

Mr. RODMAN. I think the cost of those—of that land was probably about \$18,000.

Mr. SIMON. So that out of the mortgage proceeds in addition to the \$172,000, which represented the excess of mortgage over cost, you personally received a profit out of the mortgage proceeds of \$70,000 on the land?

Mr. RODMAN. That is correct, and that land incidentally, in the immediate vicinity now sells at \$25,000 an acre.

Mr. SIMON. But out of the mortgage proceeds a total of \$242,000 in excess of all costs?

Mr. RODMAN. I presume that is what the figure would be.

Mr. SIMON. Mr. Rodman, did you pay normal income taxes or long-term capital gain on that \$242,000?

Mr. RODMAN. I paid capital gains on the land, as it was sold, and on the rest of it, when we got our mortgage on the project, a consolidation of the two corporations took place. The Chesapeake Construction and the project were consolidated into one. Chesapeake Construction having acquired the stock of the project.

Mr. SIMON. You paid long-term capital gains on the \$70,000 on the land; is that correct?

Mr. RODMAN. Presumably—\$88,000 I said.

Mr. SIMON. On this \$172,000 remaining, were any taxes paid on that?

Mr. RODMAN. I said the consolidation took place of the two corporations.

Mr. SIMON. I so understand.

Mr. RODMAN. And when and if any stock of the corporations are disposed of, the tax will be due and payable.

Mr. SIMON. Was any part of that \$172,000 distributed by the corporation to you?

Mr. RODMAN. No.

Mr. SIMON. Is it still in the corporation?

Mr. RODMAN. It is still in the corporation.

Mr. SIMON. Has any part of it been loaned to you?

Mr. RODMAN. Except in the normal operations, when an exchange of a check may take place for a short time but that is about all—no loans.

The CHAIRMAN. You have been using those funds as though they were your own, which they are?

Mr. RODMAN. No, I wouldn't say that.

We bought three and a quarter percent Government bonds. They were bought with corporate money and the corporation has the profits. We sold those Government bonds, incidentally. That was a windfall.

The CHAIRMAN. How much cash does this corporation have on hand at the moment?

Mr. RODMAN. I should imagine about—I don't know exactly but about \$175,000 or \$200,000.

The CHAIRMAN. How much in Government bonds?

Mr. RODMAN. \$80,000 until they were sold a few days ago.

The CHAIRMAN. How much in receivables?

How much in other assets, other than the equity in the buildings?

Mr. RODMAN. I should say another \$70,000 or \$80,000, maybe \$100,000.

Mr. SIMON. On the \$90,000 that you personally got out of sections 1 and 2 did you pay normal income taxes or long term capital gains?

Mr. RODMAN. Long term capital gains.

Mr. SIMON. So that the capital stock was \$1,000 in each of these companies; is that right?

Mr. RODMAN. I believe the records show that.

Mr. SIMON. As of today, your capital investment in the entire project is the \$1,000 capital stock in section 3; is that right?

Mr. RODMAN. I presume that would be correct.

Mr. SIMON. And you have——

Mr. RODMAN. I am not sure.

Mr. SIMON. And you have received \$90,000 out of section 1, and \$80,000 out of the land on section 2, or \$170,000 already on which you have paid long term capital gains; in addition you own the stock in section 3, which has the building and something like \$175,000 in cash and \$100,000 in receivables——

Mr. RODMAN. I believe so.

The CHAIRMAN. Mr. Rodman, which one of the FHA officials suggested that you go into the section 608 projects?

Mr. RODMAN. No FHA official suggested it to me.

The CHAIRMAN. Who suggested it to you?

Mr. RODMAN. I knew of the operations that were taking place. I saw projects going up and naturally I became interested. I read the regulations and I decided I would like to go into it.

The CHAIRMAN. You made your application of course, here in Washington, D. C.?

Mr. RODMAN. Yes, sir.

The CHAIRMAN. Did you ever give any FHA official anything of value?

Mr. RODMAN. No, sir.

The CHAIRMAN. Did they ever ask for anything of value?

Mr. RODMAN. No, sir.

The CHAIRMAN. Did you ever give any gifts to any of them?

Mr. RODMAN. No, sir.

The CHAIRMAN. No gifts whatsoever?

Mr. RODMAN. No gifts.

The CHAIRMAN. Were you ever told by any FHA official that it was possible to get into the section 608 projects without investing any capital?

Mr. RODMAN. No, sir.

The CHAIRMAN. You were not?

Mr. RODMAN. No, sir.

The CHAIRMAN. You just went into this of your own accord. You heard of it, and you went into it?

Mr. RODMAN. Yes, sir.

The CHAIRMAN. And you built four projects?

Mr. SIMON. Three.

Mr. RODMAN. Three.

The CHAIRMAN. Three different projects.

Are there any questions, Senator?

Senator MAYBANK. No, sir.

The CHAIRMAN. Thank you very much.

Mr. VAN ARKEL. Senator, before Mr. Rodman is dismissed, we have the transcript of the executive session and at page 3008 of that, Mr. Rodman was asked whether or not he had borrowed any money from the corporation, and he said "No." I believe he has sufficiently clarified that matter this morning. There may have been some very slight exchange of checks, et cetera.

The CHAIRMAN. In other words, in executive session he said he had not borrowed any money from the corporation. Now he wishes to change his testimony he has?

Mr. VAN ARKEL. His answer was substantially correct as made but should be qualified by the statement he has made this morning, that there was the slight small amount of checks.

The CHAIRMAN. How big was this slight amount of checks?

Mr. RODMAN. I don't recall. Instead of me saying positively no, but in the corporations so closely affiliated there may have been slight exchanges from time to time.

The CHAIRMAN. Is it a fact that you have loaned yourself from these corporations as high as \$100,000 at one time?

Mr. RODMAN. I may have had an exchange of a check for a day or two, or week. I don't recall.

The CHAIRMAN. That is the same thing, isn't it?

If I give you a check for \$50,000, for 10 days, that is the same as a loan, is it not?

Mr. RODMAN. Substantially, I would say that I have not commingled the funds.

The CHAIRMAN. What?

Mr. RODMAN. I have not mingled, or commingled personal funds with corporate funds.

The CHAIRMAN. I thought you testified you do from time to time issue checks to yourself. Do you replace it?

Mr. RODMAN. Yes; and an exchange probably may have from time to time taken place.

The CHAIRMAN. What do you mean by an exchange?

Mr. RODMAN. Well, if I recollect at this moment, suppose there were instances where I had to meet a payment, a corporate payment, let us say, and the corporation didn't have enough money at the time.

The CHAIRMAN. In other words, one corporation had to meet a

payment and it didn't have enough money. You would take the money out of the other corporation to pay it?

Mr. RODMAN. For a short time, and then repay it.

The CHAIRMAN. For all practical purposes, you treated each of these funds as though they were your own separate funds to do with as you cared to from day to day?

Mr. RODMAN. I wouldn't say that because if I did that I wouldn't have to repay.

The CHAIRMAN. I said for all practical purposes you treated them as your own, to do with from day to day as you saw fit. Isn't that what happened?

Mr. RODMAN. I simply wanted to state, I did not want to be so absolutely certain in my statement.

I wanted to qualify the statement and that is all, and frankly, the qualification of the statement in the normal circumstances would not even be thought of. It is the fear of ultimate inflating of an answer, if at some future date someone may see fit to belabor it.

The CHAIRMAN. I don't think it is that at all. I think all one has to do is simply tell the truth and be factual, because facts speak for themselves. You can't erase facts.

Mr. RODMAN. I have tried to tell you the truth as well as I can. My books are open, and available, and I simply wanted to be especially meticulous in my answer. That is all. Perhaps I am doing it clumsily.

The CHAIRMAN. We are interested in the facts and the facts speak for themselves. It is impossible to erase facts and if one tries to do so they generally get caught.

Mr. RODMAN. Right. I have nothing to hide, Senator.

The CHAIRMAN. We will see that the record is corrected.

Mr. SIMON. Mr. Rodman, is my computation correct that on the three projects, the total windfall was \$367,000?

Mr. RODMAN. By the way, what is a windfall?

Mr. SIMON. I would—

Mr. RODMAN. I have gone to college and so have you, but I don't know what a windfall is.

Mr. SIMON. I would assume it is the amount—

The CHAIRMAN. Is there a dictionary here?

We have had a lot of argument about what a windfall is. Let's put a good definition in the record at this point.

Mr. SIMON. I would assume in this case it is the amount by which the mortgage proceeds exceed all of your costs.

Mr. RODMAN. That is no definition of "windfall."

Mr. SIMON. It isn't?

Mr. RODMAN. No.

The CHAIRMAN. Frankly, I have never looked up the definition. Let's look it up and put it in the record at this point.

Mr. RODMAN. Whose dictionary will we use?

Senator MAYBANK. Webster.

The CHAIRMAN. We will use the one we have in this committee.

Mr. RODMAN. When I sold my Government bonds on behalf of my corporation a few weeks ago, three and a quarter bonds and made a profit of more than \$10,000, what is that? Is that a windfall, too?

Mr. SIMON. Certainly not, because you made a sale of something, but here you made——

Mr. RODMAN. What did I do in order to make that \$10,000 which was sold on the stock market, in Government bonds?

Mr. SIMON. I don't have any idea what you did, but in this case you got a Government mortgage which exceeded your total costs and the law said the mortgage was to be 90 percent of your costs.

The CHAIRMAN. Let me ask you, Mr. Rodman, did you expect to mortgage out when you started these constructions? Did you expect to make a profit above all your costs? In other words, did you expect to build these projects for less than the proceeds of the mortgage?

Mr. RODMAN. I had heard some people did it within 10 percent, within less than 10 percent, or even better.

The CHAIRMAN. Did you expect to?

Mr. RODMAN. I was hoping for the best.

The CHAIRMAN. Did you expect to make a profit?

Did you expect to mortgage out or did you expect the proceeds of the mortgage to be greater than all your costs when you began construction?

Mr. RODMAN. I expected a drop in materials, which I anticipated would take place.

The CHAIRMAN. Please answer the question.

Did you expect when you started these projects——

Mr. RODMAN. All right, Senator, I will answer. "Expect" may be the wrong word—I had hoped.

The CHAIRMAN. You hoped to?

Mr. RODMAN. Yes.

The CHAIRMAN. In spite of the law that it was 90 percent?

Mr. RODMAN. The law, as I understand it—there is no law of 90 percent as I understand it. The FHA regulations called for——

The CHAIRMAN. Let me read the definition of "windfall":

Windfall: Anything blown down or off by the wind, as fruit from a tree or a tree itself.

That is No. 1. No. 2.

Unexpected legacy, or other gain.

"Unexpected." Was this unexpected, this three or four hundred thousand dollars you made?

Mr. RODMAN. No more unexpected than the \$10,000 I just got by selling Government bonds.

The CHAIRMAN. You mean to tell me that you expected, knowing that the law was 90 percent—for the purposes of this I should take either actual value or the Commissioner's estimated replacement value, or any other value.

Are you sitting there now and telling us that when you started in on these section 608 projects that you expected to get back all of your costs, plus \$400,000?

Mr. RODMAN. No, I didn't expect it.

The CHAIRMAN. But it was a windfall, was it not, according to this definition?

Mr. RODMAN. I had hoped.

The CHAIRMAN. "An unexpected legacy or other gain."

Was it unexpected or not?

Mr. RODMAN. No, it was not unexpected entirely. I had hoped I would make some money. Otherwise I wouldn't go into it.

The CHAIRMAN. How can you make money on something you own yourself?

You continue to own these projects. When you got all through you owned the projects; the \$1,000 corporation that you formed owed the full amount of the mortgage. If you made a profit on this, then you should have paid corporation profit taxes. I don't think you did.

Mr. RODMAN. As I understand the operations of FHA, if they studied every inch of lumber and materials that were to go into the project, and determined what the cost of that project would be—it was FHA figures that determined how much the building would be worth and how much of a loan I would get.

The CHAIRMAN. But you didn't know when you started exactly what it was going to cost to build, did you?

Mr. RODMAN. No. Of course I didn't.

The CHAIRMAN. Then this three or four hundred thousand dollars was an unexpected legacy or a windfall as this definition says.

Mr. RODMAN. Suppose I proceed to build tomorrow without FHA and I tell you after this hearing I wouldn't build under FHA any more. I would not, because I wouldn't want to be subjected to such hearings again, I would build on my own and I would make a bigger profit. Then what?

The CHAIRMAN. What do you mean by "these hearings"?

Mr. RODMAN. I am called here, and others are called here—people who have created a terrific amount of wealth for this country—and are being held up as having done something irregular, crooked, and so forth. Frankly, as a result of these hearings, people are being smeared.

The CHAIRMAN. Why do you say that when the law said that the FHA would guarantee 90 percent, and here you—

Mr. RODMAN. They regarded—

The CHAIRMAN. Wait a minute.

You not only got 100 percent, but you got three or four hundred thousand dollars beyond 100 percent.

Mr. RODMAN. The FHA said they would guarantee 90 percent of a given figure and that they came up with, and not that I came up with.

Mr. SIMON. Didn't you first give them the figures in your application? True, they accepted them, but didn't the figures originate in your application?

Mr. RODMAN. Were the figures—the figures certainly must have been based on some reason, evaluation of land.

Mr. SIMON. You filed the application first before FHA made their valuation.

Mr. RODMAN. Yes, but let's get this clear: The figures of the costs that would be resulting in the mortgage they would underwrite, came

As I recoll it starts as follows: I submit a set of blueprints.

Mr. SIMON. Mr. Rodman, if you hoped to end up building this building for less than the amount of the mortgage, then the estimates that you put in your application must have been very substantially in excess of what you hoped your costs would be; isn't that true?

Mr. RODMAN. The estimates of the cost of the building do not appear in the application.

Mr. SIMON. I am sorry; excuse me. FHA made those estimates; not I.

The CHAIRMAN. Now, we are getting down to something.

Mr. RODMAN. That is right.

Mr. SIMON. I show you your application.

The CHAIRMAN. You say FHA made that application up for you and made the figures.

What was the name of the man that did it?

Mr. RODMAN. All right. Did I tell FHA that I expect a mortgage of \$1,458,000?

The CHAIRMAN. You certainly did.

Mr. RODMAN. I certainly did not.

Mr. SIMON. Look on page 3 there, Mr. Rodman.

Will you look on page 3?

Mr. RODMAN. Yes.

Mr. SIMON. Do you see where it says "Estimated Requirements"?

Mr. RODMAN. Yes.

Mr. SIMON. There is an item there for land improvements?

Mr. RODMAN. Yes.

Mr. SIMON. Did you fill in the figure there?

Mr. RODMAN. That is correct.

Mr. SIMON. There is an item there for construction of the dwellings.

Mr. RODMAN. Yes.

Mr. SIMON. Did you fill in the figure there?

Mr. RODMAN. Yes.

Mr. SIMON. There is an item for builders' fees and architects' fees; did you fill in a figure there?

Mr. RODMAN. Well, look, as——

The CHAIRMAN. Answer the question.

Mr. RODMAN. Yes, I did.

Mr. SIMON. There is an item for carrying charges and financing, did you fill in figures there?

Mr. RODMAN. Sure. They all come from FHA.

The CHAIRMAN. They came from FHA?

Mr. RODMAN. Yes.

Mr. SIMON. Who gave you those figures?

Mr. RODMAN. As I recollect, FHA authorities studied my plans; the procedure as I recall it——

The CHAIRMAN. Wait a minute.

Who gave you—who in FHA gave you those figures?

Mr. RODMAN. I can answer it only this way, Senator——

The CHAIRMAN. You ought to be able to remember.

Mr. RODMAN. Yes.

As I recall it starts as follows: I submit a set of blueprints.

Mr. SIMON. With an application; is that right?

Mr. RODMAN. With an application.

Mr. SIMON. What is the date of your application?

Mr. RODMAN. April 9, 1928.

All right. Then it is submitted to FHA and they study those figures very, very carefully.

Mr. SIMON. After you have given them the figures.

Mr. RODMAN. Of course.

Then they come up with three evaluations, and as I recall they had various methods of evaluating, whichever was the lowest and only then do I get my money.

The CHAIRMAN. The point I am making is that in your application, the total amount of the mortgage you asked for was considerably more than it actually cost you to build the project; is that correct?

Mr. RODMAN. That is correct.

Mr. SIMON. Mr. Rodman, what did you say in that application was your total estimated requirements?

Mr. RODMAN. On what page?

Mr. SIMON. Page 3, left-hand column near the bottom of the page.

Mr. RODMAN. \$807,866.

Mr. SIMON. How much?

Mr. RODMAN. It says \$807,866. This pertains to project 3, Atlantic Gardens, section 3.

It seems to me, Senator, if the Government wants to know how to correct these apparent irregularities, a very simple approach would be to have what we used to call in social work, a workshop conference, of builders, mortgage brokers, FHA administrators, and even the carpenter on the job, and within 1 week you could come up with all the irregularities that might be plugged up, if there are irregularities.

The CHAIRMAN. You admit there are some, don't you?

Mr. RODMAN. In any big operation such as this there may be some irregularities but I would approach the correction of them far differently, at a lesser cost to the Government, too.

The CHAIRMAN. Well, that might well be true.

Mr. RODMAN. A workshop of people in itself. I would be happy to make the necessary contribution for such a workshop conference, and the very people who came here to testify before you would be willing to come and work on such a conference, and work out legislation that you are looking for.

Senator MAYBANK. That may be true, but this committee has held a lot of hearings as you know. We never had you here but we did have in years gone by, representatives of builders, representatives of banks, and representatives of the FHA. In all those instances, they always testified, as the record will show over a period of years, that to mortgage out to these excessive amounts was impossible. I think you will find that in the hearings. You didn't state that. There were builders. There were mortgage bankers. There were presidents of real-estate exchanges and FHA officials were here.

Mr. RODMAN. I think you have gone far enough to now have an honest workshop conference to really work out something.

Senator MAYBANK. That may be true. We had a workshop conference with bankers from all over the country 2 or 3 years ago.

Mr. RODMAN. I never did think the bankers were the most honorable people.

The CHAIRMAN. I don't know of any of them that have hidden behind the fifth amendment.

Mr. RODMAN. I didn't.

Mr. SIMON. Are these projects located at 4th and Chesapeake Streets SE., all three of them?

Mr. RODMAN. Yes.

The CHAIRMAN. Thank you very much, unless there are further questions.

Mr. RODMAN. Thank you.

The CHAIRMAN. Our next witness will be Mr. Franklin Trice, of Richmond, Va. Mr. Trice?

We had Mr. Trice scheduled for yesterday. We couldn't hear him. We scheduled him for next Tuesday and Senator Robertson came to us and asked if we wouldn't hear him this morning. We said we would. Now the gentleman isn't here. I presume he feels he is going to be here on Tuesday. If he arrives today, later, will will hear him.

Our witnesses now will be Mr. Charles Sporkin and Mr. Herbert DuBois, of Philadelphia, Pa. You gentlemen please come forward. So Mr. Sporkin and Mr. DuBois will be witnesses.

Will you gentlemen be sworn? Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF CHARLES SPORKIN AND HERBERT DuBOIS,
PARKWAY APARTMENTS, HADDONFIELD, N. J., ETC., ACCOMPANIED BY JOSIAH E. DuBOIS**

Mr. SPORKIN. I do.

Mr. DuBOIS. I do.

The CHAIRMAN. Thank you, sir.

The gentleman with you is your auditor?

Mr. DuBOIS. Senator Capehart, this is my brother. He has done some legal work in the office, but he is not formally representing me as counsel.

The CHAIRMAN. Will he be answering questions?

Mr. H. DuBOIS. Very little.

The CHAIRMAN. We had better swear him. Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

Mr. J. DuBOIS. I do.

Mr. H. DuBOIS. This is Mr. Fish, and Mr. Fish was the tax accountant on one of our projects.

The CHAIRMAN. In other words, he will be advising you rather than a witness in a professional status?

Mr. H. DuBOIS. Yes, sir.

The CHAIRMAN. If you gentlemen will give your names and address to the reporter.

Mr. SPORKIN. Charles Sporkin, 1539 Pine Street, Philadelphia, Pa.

Mr. H. DuBOIS. Herbert DuBois, 60 Kendall Boulevard, Oak Lyn, N. J.

Mr. J. DuBOIS. Josiah E. DuBois, 58 Colonial Avenue, Pitman, N. J.

Mr. SIMON. Mr. DuBois, I believe you are a lawyer by profession?

Mr. H. DuBOIS. Mr. Simon, I am a lawyer by profession. I have also been very active in the mortgage business, primarily with FHA, since 1938, and in 1947, I got into a section 608 project as a sideline, and thereupon you might also say that I had adequate classification of builder, so you might say I have been builder, attorney, and mortgage representative. Actually our mortgage work, most of it was done up until very recently as direct attorneys for lending institutions, rather than as a separate approved mortgagee as such.

Mr. SIMON. Were you associated with the Parkway Apartments, Inc., project?

Mr. H. DuBois. Yes, sir.

Mr. SIMON. Who were the stockholders in Parkway Apartments, Inc.?

Mr. H. DuBois. The stockholders in Parkway Apartments, Inc., were myself, Thomas R. Edwards, and what I would refer to as the Sporkin group. That would be Charles Sporkin and certain of his relatives.

Mr. SIMON. How many shares did you own?

Mr. H. DuBois. In the owning company, sir?

Mr. SIMON. In Parkway Apartments, Inc.

Mr. H. DuBois. In the owning corporation, I had a 16 percent interest in the owning corporation.

Mr. SIMON. How much stock did Mr. Edwards own?

Mr. H. DuBois. Seventeen and one-third.

Mr. SIMON. How much did the Sporkin group own?

Mr. H. DuBois. The balance of $66\frac{2}{3}$.

Mr. SIMON. What was the capital stock of Parkway Apartments, Inc.?

Mr. H. DuBois. The capital stock of Parkway Apartments, Inc., I have not looked it up, but I think was at least \$50,000, which was what we paid for the land. It may have been higher, due to certain additional closing costs. The reason I can't answer that specifically is because we sold the project and all of our original closing documents were delivered to the purchaser, and I don't know who has them now.

Mr. SIMON. Is what you are saying you bought the land for approximately \$50,000 and put that in for the capital stock?

Mr. H. DuBois. We bought the land for exactly \$50,000 and put that in for the capital stock.

Mr. SIMON. What was the amount of the mortgage?

Mr. H. DuBois. The amount of the mortgage was originally \$2,857,600.

Mr. SIMON. Is that insured by FHA under section 608 of the Housing Act?

Mr. H. DuBois. That is right, and that mortgage was subsequently increased by roughly \$72,000.

Mr. SIMON. What was the reason for increasing it?

Mr. H. DuBois. The reason for increasing it was due to certain changes which we made in the project during the course of construction, which we felt would be for the long-run betterment of the project, such as the use of shale brick in place of common brick, Venetian blinds in place of shades, etc.

Mr. SIMON. When did you get the original FHA commitment?

Mr. H. DuBois. As I recall, the original FHA commitment was obtained in the spring of 1948.

Mr. SIMON. When did you get the \$72,000 increase?

Mr. H. DuBois. That was, I believe, in the fall of 1948, or the early part of 1949. I think in the fall of 1948.

Mr. SIMON. When was the construction finished?

Mr. H. DuBois. Construction was finished approximately September 1 of 1949.

Mr. SIMON. So that you got the increase before construction was finished; is that right?

Mr. H. DuBois. I can't remember exactly, sir. I think we were about a third finished maybe or something like that when we applied for the increase.

Mr. SIMON. Who built the building?

Mr. H. DuBois. The name of the building company was Edwards Building Co.

Mr. SIMON. Is that a corporation or partnership?

Mr. H. DuBois. That was a partnership.

Mr. SIMON. Who were the partners?

Mr. H. DuBois. The partners were Thomas R. Edwards, myself, Charles Sporkin, Nat Sporkin.

Mr. SIMON. Were they substantially the same people who were stockholders in Parkaway Apartment, Inc?

Mr. H. DuBois. Beg pardon?

Mr. SIMON. Were they substantially the same people who were the stockholders in Parkway Apartments, Inc.?

Mr. H. DuBois. Yes, sir, they were. Mr. Edwards and I jointly had a third interest in the partnership and the Sporkin group had a two-thirds interest in the partnership.

Mr. SIMON. What was the contract between the sponsoring corporation and the builder?

Mr. H. DuBois. There, again, I am not sure of the exact figure because I tried to locate that agreement, and I think that in turn went with the closing documents. I am sure that FHA has a copy, which was lodged with them in initial closing. I know the amount of that construction contract was less than the mortgage.

Mr. SIMON. Do you know what the costs of Edwards Building Co. were?

Mr. H. DuBois. You mean our actual costs?

Mr. SIMON. Yes.

Mr. H. DuBois. Our actual costs—and I can't give you the exact figure—but I think that our actual building profit, in other words, our actual costs were about \$270,000.

Mr. SIMON. Less than the mortgage?

Mr. H. DuBois. No, less than the face amount on the construction contract. In other words, we reported to Internal Revenue as I recall it approximately \$270,000 profits to Edwards Building Co.

Mr. SIMON. Disregarding for the moment the distinction between the partnership and the corporation, which was owned by the same people, by how much were all the costs, including the cost of the land, less than the amount of the mortgage?

Mr. H. DuBois. I never checked this exactly, but when—the best way I can answer that because I haven't checked it exactly, but when there was a list appeared in the newspaper which said we had made a \$30,000 windfall on Parkway, which to me indicates from the papers which we filed, that our total construction—the face amount of the construction contract, plus interest during construction, and certain other fees, amounted to a figure \$30,000 less than the mortgage, so that if that is correct—

Mr. SIMON. Are you telling me now solely what you have read in the newspapers?

Mr. H. DuBois. I am telling you it is in the newspapers—

Mr. SIMON. Wait a minute, Mr. DuBois. You are testifying under oath, and I have asked you whether you know—if you don't know the answers you don't know—

Mr. H. DuBois. I won't want to give that answer, Mr. Simon. I believe that the so-called windfall differential was \$30,000—

Mr. SIMON. Wait a minute—

Mr. H. DuBois. Let's say—

The CHAIRMAN. Let's repeat the question and the Chair will rule whether it should or should not be answered.

Mr. SIMON. My question is, By how much did the mortgage exceed the total cost to the corporation or the partnership, of the land, buildings and the financing charges and everything else that went into the project?

Mr. H. DuBois. I think I have a pretty good recollection on that. The building company made \$270,000. There was another differential of \$30,000 between the mortgage and the other costs added up which would make \$300,000. And we paid \$50,000 for the land.

Mr. SIMON. So the excess of mortgage over total cost or the windfall was \$250,000, is that right?

Mr. H. DuBois. If you ask me whether or not the profit was \$250,000, I will say that, but I am still not clear and I am not trying to be antagonistic in any sense of the word, but I don't want to say the windfall was because I don't agree with the definition of the word.

Mr. SIMON. Mr. DuBois—

The CHAIRMAN. You don't agree with the definition of the word. Let's have this out: Did you, when you started in on the project, expect to make—was it \$230,000?

Mr. SIMON. It was \$250,000.

The CHAIRMAN. \$250,000?

Mr. H. DuBois. We expected to make a profit.

The CHAIRMAN. You expected to make a profit?

Mr. H. DuBois. Certainly we did.

The CHAIRMAN. In other words, when you started out you expected to get back from the proceeds of the mortgage more than all total costs that you put in?

Mr. H. DuBois. That is correct, sir.

The CHAIRMAN. You expected to do that?

Mr. H. DuBois. That is correct, sir. Could I explain my statement, Senator?

The CHAIRMAN. Yes, you may explain your statement.

Mr. H. DuBois. Mr. Edwards and I had previously built a small section 608 of 68 units, and we got from our experience in that job—we felt that we could make a profit in this. Now, how much profit I don't want to say. I don't want to say we expected to make \$250,000, \$100,000, or \$150,000, so many things can come up.

The CHAIRMAN. Is it your best judgment that the FHA officials knew you were going to do it?

Mr. H. DuBois. Going to make a profit?

The CHAIRMAN. Yes.

Mr. H. DuBois. I don't believe that at all, Senator. There are all different types of builders. Mr. Edwards had been in the home-building business, churches, and schools for over 30 years.

The CHAIRMAN. My question is, Is it your best judgment that the FHA officials knew that you were going to make a profit?

Mr. H. DuBois. I don't believe so, Senator.

The CHAIRMAN. You do not believe so?

Mr. H. DuBois. I do not believe so. It was certainly never represented to us we could make a profit on the job. It was up to us to analyze our own figures——

The CHAIRMAN. Were you familiar with the law that Congress passed that the mortgage was to be 90 percent, and for the benefit of this argument, I shall say, estimated replacement value, or actual cost; it was to be 90 percent. If it was a million dollars, the mortgage the Government would guarantee would be \$900,000. You are telling us you went into this with the expectation you were going to get all your money back plus in this instance \$150,000, and continue to own the project. When you gentlemen, as the gentlemen ahead of you did, and as many, many of our witnesses have, object to us calling it a windfall, then if it wasn't a windfall, there has been a lot of either poor judgment on the part of the FHA, or there has been collusion, or there has been outright violation of the law. I am going to read the definition of windfall again for you.

Windfall. No. 1. Anything blown down or off by the wind, as fruit from a tree, or the tree itself. 2. An unexpected legacy or other gain.

Anything above one hundred percent—the law said 90—but anything above a hundred percent on any of these projects certainly was an unexpected gain, was it not, or was it. Maybe it wasn't. I don't know.

Mr. H. DuBois. Senator Capehart, I think you have been through this with a number of other builders. The FHA did let us know that there was a very reasonable allowance; whether they did it rightfully or not I have no way of knowing, but I am sure it was done nationwide.

The CHAIRMAN. Are you saying this was a nationwide hoax on the part of FHA and the builders?

Mr. H. DuBois. I don't mean that at all, Senator. I think it was a nationwide policy that the builder—whoever was going into a section 608, and of course in our case, we did our own building and the builder had had over 30 years experience in the building field. We were told that we would get a 5 percent allowance for builder's fee, and a 5 percent allowance for our architectural fees, so you see that practically takes care of the 10 percent.

The CHAIRMAN. That takes care of a hundred. That brings it up to a hundred percent.

Mr. H. DuBois. That is right.

The CHAIRMAN. What brings it over the hundred percent, because you just testified to a case of over a hundred percent?

Mr. SIMON. 110 percent.

The CHAIRMAN. About 110 percent, and the witness before you testified to a case of more than a hundred percent. We had last week two big cases in here, both from New York. One, \$6 million, the other one, \$5 million on a \$29 million project. That would be about 20 percent. That certainly would be 10 percent or 20 percent above 90.

Mr. H. DuBois. Senator Capehart—

The CHAIRMAN. Explain to us so we can understand the getting up to a hundred percent, because of the foolishness on the part of FHA of allowing 5 percent architects' fees when they knew they weren't going to spend it and 5 percent builders' fees when they knew they weren't going to spend it. That brings it up to a hundred. I think we can begin to understand that, but explain to us how from a hundred percent up, how it happened, and whether or not it was expected or unexpected.

Mr. H. DuBois. I hope you won't mind if I don't get legalistic, because I have been away frankly from legal matters and that is why I brought my brother with me.

The reason we were able to get a differential, I would say, in Parkway Apartments, was due to the fact that Mr. Sporkin and the supervising builder, Mr. Edwards and his brother, had been in the building—Mr. Edwards had been in the building business for many, many years. He had been in the business for over 30 years. As a matter of fact on individual homes, when he builds individual homes, and on individual homes we have built since the section 608's, many of the builders wonder how we can turn out as nice a single-family home as we do.

The CHAIRMAN. All of this information you are giving us, did you know before you made your application?

Mr. H. DuBois. I certainly did.

The CHAIRMAN. Why did you make the application so high?

Mr. H. DuBois. Excuse me, sir—

The CHAIRMAN. Why did you make it so high if you knew all these things, you would be able to make these savings, et cetera. Why in your application did you ask for so much more?

Mr. H. DuBois. Senator, the normal procedure—when I say normal procedure, it was standard procedure—

The CHAIRMAN. Let me ask you this: You say you knew you were going to be able to make all these savings. Was your application then a truthful application?

Mr. H. DuBois. I want to explain that.

The CHAIRMAN. Was it?

Mr. H. DuBois. I am going to explain it. As far I am concerned it was truthful. I will explain how it happened if you will let me answer in my own way. I am going to answer your question.

Mr. SIMON. Did it accurately give your estimates of the cost?

Mr. H. DuBois. I will give you the answer if you will please let me answer it in my own way.

The CHAIRMAN. Go ahead and answer. We won't interrupt you. I want to again read into the record at this time the definition of windfall, from Webster's New Collegiate Dictionary, I don't know what year—I think that is close enough identification—which I again say is "an unexpected legacy or other gain"—unexpected, I call your attention to. What we are going to try to find out from this time on is whether these profits above a hundred percent—we will forget from 90 to a hundred, but from 100 percent up was expected or unexpected because that is the definition of windfall. I am getting a little tired of people coming in here and saying it was not a windfall. Maybe it was an honest windfall. I don't know.

Maybe it was an honest windfall, but certainly it was a windfall. If it wasn't a windfall, then somebody's face ought to be awfully red in every instance.

Mr. H. DuBois. The word "windfall" has been used so many different ways in the newspapers. Some newspapers use it as profit where you report the capital gain. It is used in so many different ways that I hate to answer a question where you say, "Did you make a windfall profit?"

The CHAIRMAN. So the record will be clear, when I use it I am talking about the difference between the actual cost of the projects, and the amount of the proceeds and the mortgage, so there can be no misunderstanding. That is what I am talking about. In other words, in my opinion, when you total up all the costs of the project, and deduct that from the total proceeds of the mortgage, that is a windfall, if it is above 90 percent of the cost. I will be a little generous here this morning, since you all seem to think that FHA gave you 5 percent on architects' fees and 5 percent on builders' fees, whether you spent it or not, so that is 10 percent. That would make 100 percent, so having been up all night for a couple of nights, I will be a little generous here this morning and say everything over a hundred percent. What I am talking about is windfall.

Now, are you going to tell us whether your application honestly reflected your estimated cost?

Mr. H. DuBois. The only thing I can say is this: That the standard procedure in our area, where we were building, the standard procedure with the FHA office was that the builders—and I think practically all of them—I can't make that statement under oath that all of them did—but to the best of my knowledge practically all of them filed their application for the maximum amount of mortgage that was permissible under the act. The reason we did that was because we wouldn't have any actually specific way of knowing what to file for and furthermore, we were told by the FHA office to file for the maximum and then they would issue their commitment for whatever their cost figures showed, and their appraisal figures showed we were entitled to.

Mr. SIMON. You mean the \$8,100 a unit that Congress fixed as a ceiling in the statute?

Mr. H. DuBois. There were two things: The Parkway Apartments, the application when that was filed originally, used the \$1,800 a room, but Clover Hill Gardens, which was the second project that you are interested in, came under the \$8,100 per apartment.

Mr. SIMON. Are you saying, Mr. DuBois, that your application to FHA was not even intended to reflect your own estimate of cost, but was intended to be the maximum permitted by statute?

Mr. H. DuBois. That is absolutely correct. Now to give you an analogy, if we are going to sell houses for \$11,000, under section 203, we will always apply for a commitment for the maximum amount. In other words, we asked for in that case a buyer's loan, conditionally, for \$9,450. That doesn't mean we are going to get \$9,450 because the FHA is going to tell us what we are going to get.

Mr. SIMON. I take it if the application had had a question on it, "What is the maximum amount that the statute permits you to get?" the information you gave would be the truthful answer, but since the

question in the application is, "What is your estimated requirements?" I take it you have said that you did not truthfully answer the question.

Mr. H. DuBois. No; I will not say that. All I want to tell you is this: At that time this was an emergency housing program and I don't know whether the FHA had all the full instructions that they should have had or they didn't. They were anxious to get this program underway. All I can say is that when I filed that application—I don't know whether I signed it or not—it is not important, because it was prepared in my office so even if I asked one of the other sponsors to sign it, I take the blame for whatever figures went in that application, but that application was a result of figures which I went over with the Federal Housing Administration at the time. I certainly did not think I was doing anything morally wrong because I was told to file for the full amount and they would issue the commitment for whatever the costs were and I certainly didn't think at the time that the FHA men weren't doing anything other than what they were supposed to do.

Mr. SIMON. Let me ask you this question—

Mr. H. DuBois. That was done openly, Mr. Simon, when we were told to apply for the maximum. There is nothing clandestine. In fact, the Director, the chief underwriter, the architects—if you will ask any of them in there, they would all give you the same answer.

Mr. SIMON. Let me ask you this: Supposing an Internal Revenue agent told you that in your income-tax return instead of putting down your full income, just put down 50 percent of your income. Would you think you could escape the criminal implications?

Mr. H. DuBois. No, absolutely not. That was an application for mortgage insurance for so much money. The bank was applying for mortgage insurance of so much money.

Mr. SIMON. But you didn't purport to answer the questions truthfully, is that right?

Mr. H. DuBois. I certainly will not say that. I don't think that is putting it fairly. I have explained to you exactly how it happened. This is a public hearing. Let others determine whether I am being honest. I am only telling you honestly what happened.

Mr. SIMON. Very honestly and what you say happened is you did not give them the maximum estimates of cost but gave them the statutory amount?

Mr. H. DuBois. I put in the application, I actually went over it with one of the FHA men and he assisted me in filling it out. If you want to know exactly what was done.

Mr. SIMON. What you put in there was the maximum amount the statute permitted?

Mr. H. DuBois. We filed for the maximum amount of mortgage, and then they figured—

Mr. SIMON. Without regard—

Mr. H. DuBois. I can remember very vividly how it was done. I think at the tail end of the application they figured 5 percent for builder, 5 percent for architects and they estimated so much interest during construction, so much FHA insurance, so much inspection and then they worked backward and got a construction figure.

Mr. SIMON. At any rate your testimony is that your application was not intended to reflect your own estimates of cost but was intended to be the maximum permitted by statute; is that right?

Mr. H. DuBois. My application was simply made as a result of how the FHA instructed us to do it.

Mr. SIMON. Orally instructed you?

Mr. H. DuBois. That is correct.

Mr. SIMON. And it was intended to be the maximum permitted by statute. It was not intended to be your own estimates of your own costs?

Mr. H. DuBois. No. As a matter of fact, Mr. Simon, our detailed costs—what would happen frequently would be we would buy a piece of ground and the architect would make up a layout plus a typical plot plan of the exact type of apartment unit we were going to make. After we got our commitment, frequently there were revisions made, like by land planning. There would be fewer or lesser units. Maybe they would have some change in the specifications.

Mr. SIMON. Without regard to that, Mr. DuBois, is it true that your applications reflected the maximum amount permitted by statute, and were not intended to reflect your own estimates of your own costs?

Mr. H. DuBois. That is correct, Mr. Simon.

Mr. SIMON. In Parkway Gardens—

Mr. H. DuBois. Parkway Apartments.

Mr. SIMON. Parkway Apartments, the mortgage exceeded total costs by \$300,000, is that right?

Mr. H. DuBois. Less the land, if you want to figure that.

Mr. SIMON. Less the lands which would be \$250,000?

Mr. H. DuBois. That is right.

Mr. SIMON. In spite of that, when construction was a third through, FHA increased the commitment by \$72,000?

Mr. H. DuBois. That is correct, but I would like to say one thing on that, Mr. Simon: That our extras—I am positive, because the \$72,000 increase we got was all based on specific change orders which I have right here which justified it and furthermore, I am positive, and I could get this information if it was necessary, that we actually put more in extras, in that building, by not too much, but let's say we had maybe \$80,000 in extras and we applied for a \$72,000 increase. That actually brought us up to the maximum amount permissible but I also want to point out that most of those changes that we made in extras were made before we knew there was going to be a revision of the section 608 law which would permit an increase, so I don't want you to feel, the reason I bring that out, that we were building solely to make a profit and if the thing don't work out, to the devil with it, give it back to the Government.

Mr. SIMON. And after all those extra costs the mortgage still exceeded all the costs including the land by \$250,000?

Mr. H. DuBois. That is correct.

Mr. SIMON. Going to Clover Hills, were you connected with Clover Hills Gardens Corp.?

Mr. H. DuBois. That is correct.

Mr. SIMON. Who were the stockholders?

Mr. H. DuBois. The stockholders, there was myself, I had 10 percent, another younger brother, who is an attorney in my office, had 5 percent, the Edwards group had 45 percent—

The CHAIRMAN. Who were the Edwards group? Have you testified to that?

Mr. H. DuBois. That was Thomas R. Edwards, who had a 10 percent interest, a brother, Albert Edwards, who had 15 percent.

The CHAIRMAN. What is their business?

Mr. H. DuBois. All builders, all active builders, plus 2 sons and all 5 of them are still active.

The CHAIRMAN. Been in the building business all their lives?

Mr. H. DuBois. All their lives, don't know any other trade except that Thomas Edwards, who is now 63 years of age, and he was sort of the guiding light, worked in the coal mines for the first 13 years of his life which might be interesting to you to show you his background.

Mr. SIMON. Who owns the other 40 percent?

Mr. H. DuBois. That was by the Sporkin group.

The CHAIRMAN. Who are they?

Mr. H. DuBois. That is Charles H. Sporkin.

The CHAIRMAN. The gentleman on your left?

Mr. H. DuBois. Yes.

Mr. SIMON. He is a lawyer?

Mr. H. DuBois. Mr. Sporkin is a lawyer and he also has been in the building business. I believe he built a few houses before he got into section 608.

The CHAIRMAN. He is a lawyer?

Mr. H. DuBois. He is a lawyer, sir.

The CHAIRMAN. Is he in politics?

Mr. H. DuBois. Well, do you want me to answer it?

The CHAIRMAN. Yes.

Mr. H. DuBois. Well—

The CHAIRMAN. If he is a partner I want to know.

Mr. H. DuBois. He is a candidate for Congress from Philadelphia.

The CHAIRMAN. From what district?

Mr. H. DuBois. Third district.

The CHAIRMAN. On what ticket?

Mr. H. DuBois. On the Republican ticket.

Mr. SIMON. Where is Clover Hills located?

Mr. H. DuBois. Mount Holly, N. J.

Mr. SIMON. What was the capital stock of that company?

Mr. H. DuBois. Capital stock there was \$2,700.

Mr. SIMON. Incidentally where was Parkway Apartments located?

Mr. H. DuBois. Physically, in Delaware Township, but immediately adjoining Haddonfield. It therefore carried a Haddonfield postoffice.

Mr. SIMON. H-a-d-d-o-n?

Mr. H. DuBois. H-a-d-d-o-n-f-i-e-l-d.

Mr. SIMON. Is that Haddonfield, Pa., or N. J.?

Mr. H. DuBois. New Jersey.

Mr. SIMON. Going back to Clover Hills, who built that building?

Mr. H. DuBois. That was built by Edwards Construction Co., a partnership, and then later on we switched over to Edwards Construction Co., corporation.

Mr. SIMON. Is that the same people that owned the stock in Clover Hills?

Mr. H. DuBois. That is correct.

Mr. SIMON. The same proportions?

Mr. H. DuBois. That is correct.

Mr. SIMON. What was the mortgage on that building?

Mr. H. DuBois. \$1,620,000.

Mr. SIMON. What was the total cost of construction, disregarding the corporation and the partnership?

Mr. H. DuBois. Disregarding—what do you mean?

Mr. SIMON. Treating them as one unit.

Mr. H. DuBois. What was that figure? I testified in previous session, I believe a figure of \$230,000, but I think that was what the corporation made, but the partnership had \$50,000, which made a total of \$280,000, and could I please interject something here? Both the profits on Parkway and on Clover Hills included all of—in other words, there were no other salaries, like on Clover Hills Gardens, there were five Edwardses who actively were in the building, so therefore when you say this figure represents so much profit—

Mr. SIMON. I didn't say it represented a profit.

Mr. H. DuBois. There were no separate salaries.

Mr. SIMON. I want to make clear I didn't say it represented a profit, because I don't think it did.

Mr. H. DuBois. There were no separate salaries. The same way in Parkway, two-hundred-some-odd-thousand dollars there were no salaries over and above that. That included everybody's time, including my own, because I didn't have separate fees for counsel fee.

Mr. SIMON. In Clover Hills, by what amount did the mortgage exceed all the costs to either the corporation or the partnership, including the lands and the financing charges and interest and everything else?

Mr. H. DuBois. About \$280,000.

Mr. SIMON. \$280,000?

Mr. H. DuBois. Yes, sir.

Mr. SIMON. Are you interested in Margate Gardens?

Mr. H. DuBois. No, sir; I am not.

Mr. SIMON. Are you interested in Brook Haven Homes?

Mr. H. DuBois. No, sir.

Mr. SIMON. Are these two the only section 608's that you are interested in?

Mr. H. DuBois. No. I was interested in Maplevue Apartments, Inc., and that was the second or third section 608 built in the Camden area.

Mr. SIMON. Did you mortgage out on that?

Mr. H. DuBois. It is a hard question to answer. I will put it to you this way—

Mr. SIMON. Let me ask more specifically: Did the mortgage proceeds exceed the total cost of construction including the land and the financing charges?

Mr. H. DuBois. Again I will answer your question and you can tell me whether or not the answer is proper; I mean what your evaluation of the answer is. My Edwards and I—and that was solely Mr. Edwards and I, and that was the first section 608 project that I got into—and incidentally, the way that happened was that in 1946, I didn't have any mortgage business like a lot of other fellows; I was starting from scratch again and I went to see Mr. Edwards—

Mr. SIMON. I would just like to know whether the cost exceeded the cost or the mortgage exceeded the cost.

Mr. H. DuBois. We put in about a year and a half's work apiece—

Mr. SIMON. Mr. DuBois—

Mr. H. DuBois. Wait a minute. We used a building corporation called Edwards-DuBois, Inc., which each include salaries which cleaned the building corporation out and as I recall Mr. Edwards and I each drew between \$35,000 and \$30,000 for a year and a half's efforts, which were reported to Internal Revenue as salaries from Edwards-DuBois, Inc.

Now, I don't know whether you call that building for less than the mortgage or not, because I had always felt and I am sure Mr. Edwards did that they were reasonable salaries for the amount of work we did, because I even kept the payroll myself. I did all the bookkeeping.

Mr. SIMON. Is the net of that that in Mapleview, the mortgage came out even, with the costs, including the land costs and that you each took out \$25,000 to \$30,000 of the salaries?

Mr. H. DuBois. That would be my interpretation.

Mr. SIMON. Is that what you are saying?

Mr. H. DuBois. If from the facts I gave you, that would be my determination. The question is whether or not you feel those salaries were reasonable.

The CHAIRMAN. You were entitled to a salary, and taking the salaries out did you mortgage out?

Mr. DuBois. If you think the salaries I mentioned were reasonable, then we just broke even.

The CHAIRMAN. That is your answer, then?

Mr. H. DuBois. That is my answer; yes.

Mr. SIMON. Your answer is the mortgage was 100 percent of the cost, is that right, after taking out the salaries, is that right?

Mr. H. DuBois. That is correct.

Mr. SIMON. And are these the only FHA-insured projects that you have been in, other than single-family houses?

Mr. H. DuBois. That is correct. I think I know what you mean. I haven't been in any section 207's or 213's or anything like that, just section 203. Other than these section 608's, I have been in section 203 projects.

Mr. SIMON. They have been single-family houses?

Mr. H. DuBois. That is correct, without exception.

Mr. SIMON. Mr. Sporkin, would you tell us about Margate Gardens?

Mr. SPORKIN. Yes, sir.

The CHAIRMAN. Is Mr. Trice here yet? Evidently not.

Mr. SIMON. Were you interested in Margate Gardens?

Mr. SPORKIN. I was interested in Margate Gardens.

Mr. SIMON. Who were the stockholders?

Mr. SPORKIN. The stockholders in Margate Gardens were myself, my brother Nat, my brother Maurice, the original, Mr. Milton Lundy, and Eve Lowenthal.

Mr. SIMON. What percentage was owned by each of those?

Mr. SPORKIN. The percentages as I have checked up were 38 percent to myself, 22 percent to Lundy, 22 percent to my brother Nat, 11 percent to my brother Maurice, and 11 percent to Eve Lowenthal.

Mr. SIMON. What was the capital stock?

Mr. SPORKIN. I believe it was \$10,000.

Mr. SIMON. Who built the buildings?

Mr. SPORKIN. The building was built by us under a building company called Winchester Construction Co.

Mr. SIMON. By that do you mean the same people—

Mr. SPORKIN. The same group of people, that is correct.

Mr. SIMON. Was that a partnership?

Mr. SPORKIN. Yes.

Mr. SIMON. Composed of the stockholders in Margate?

Mr. SPORKIN. That is correct.

Mr. SIMON. What was the amount of the mortgage?

Mr. SPORKIN. The mortgage was \$648,000.

Mr. SIMON. What was the total cost of construction?

Mr. SPORKIN. Including the ground?

Mr. SIMON. Yes.

Mr. SPORKIN. Including the ground it was \$658,000.

Mr. SIMON. Does that include interest and carrying charges?

Mr. SPORKIN. Not all interest; just part of the interest. Of course, there was some moneys left, bills we had to pay after the project was finished, because of the default by the town of Margate in requiring or in not putting the street in that they had promised.

Mr. SIMON. So the mortgage proceeds were not quite equal to the cost of construction?

Mr. SPORKIN. That is correct.

Mr. SIMON. Have you been in any other FHA projects other than single-family sale houses?

Mr. SPORKIN. Parkway Apartments and the Clover Hills.

Mr. SIMON. Have you been in any other?

Mr. SPORKIN. And the single, under the section 203. I am continuing in that business.

Mr. SIMON. That is single-family sale houses?

Mr. SPORKIN. That is right, selling.

Mr. SIMON. Other than Parkway Apartments, Clover Hills and Margate Gardens have you been interested in any FHA-insured projects other than single-family sale houses?

Mr. SPORKIN. I have not.

May I make a statement?

Mr. SIMON. May I ask one more question here: On the income which you received from Parkway Apartments, and Clover Hills Gardens, representing excess of mortgage proceeds over cost, did you pay long-term capital gains or normal income tax on it?

Mr. SPORKIN. On the Parkway Apartments, we paid the normal ordinary tax. On the Clover Hills, Mr. DuBois, through his tax associate, Mr. Fish, had an idea that everyone else was taking capital gain out of it, so that it would be advisable that we do so. After the tax had been set up on a long gain, the Internal Revenue Service checked us and told us about that famous Rose case. Being a candidate for office, and due to the fact that I am making money all the time in my business, I signed an agreement changing the capital gain item to ordinary income, so that I am confronted with the payment of all of my income out of these projects, on an ordinary tax basis.

Mr. SIMON. Mr. DuBois, did you treat your income from these projects in the same way?

Mr. H. DuBois. I don't know where we would be, Mr. Simon, if we didn't all treat it alike. Certainly, I would like to make some modifica-

tion, just a slight modification to what Mr. Sporkin said. We actually started out Clover Hills Gardens on a partnership, and very shortly thereafter, we changed to the capital gains setup, but everybody—I might point this out—ordinary income on all building profits of both jobs—or income tax was paid by everybody and I was just asking Mr. Sporkin this morning; I would say roughly that well over half of all building projects profits that were made are being paid back to the Government in tax.

Mr. SIMON. Mr. DuBois, you talked about the corporations making a profit here. Did the corporations ever pay corporate taxes?

Mr. H. DuBois. They made a profit; certainly they did.

Mr. SIMON. You gave the term "profit" to the difference between the cost and the mortgage, and I would like to know whether the corporations ever paid a corporate tax on that profit.

Mr. H. DuBois. You are getting into something that is highly technical.

Mr. SIMON. I would like to make it very simple: Take Parkway Apartments, Inc., for example, Parkway Apartments, Inc. You got a mortgage, is that right?

Mr. H. DuBois. Yes, but I don't think they made any money other than on the operation of the job.

Mr. SIMON. Parkway Apartments got a mortgage, didn't it?

Mr. H. DuBois. That is right.

Mr. SIMON. And it had a contract with Edwards Building Co., a partnership to build the buildings, is that right?

Mr. H. DuBois. That is correct.

Mr. SIMON. And the cost of the building to Parkway Apartments, plus the cost of the land, plus all other charges, was less than the amount of the mortgage; is that right?

Mr. H. DuBois. Yes.

Mr. SIMON. You termed that a profit?

Mr. H. DuBois. No; that wouldn't be a profit.

Mr. SIMON. Didn't you call that a profit?

Mr. H. DuBois. Maybe I did. I didn't mean it. I was thinking of it in the sense that generally—

The CHAIRMAN. If it wasn't a profit what was it?

Mr. H. DuBois. I guess it was borrowed money. We took it out. We sold the project later.

Mr. SIMON. You didn't pay a corporate tax on that.

Mr. H. DuBois. I don't think we had to. Whatever tax we had to pay I am sure we did. If this was a \$30,000 differential we would not have paid a tax, I am quite sure, because that was borrowed money—

The CHAIRMAN. Your brother is an attorney and you have your certified public accountant here. What is the proper definition of this money between the total—all costs of these projects and the total amount of the proceeds of the mortgage? Is it a profit, an appreciation of values, or is it simply money that you borrowed and have to pay back some day, or what is it? Do you care to answer that?

Mr. FISH. I would say it was a profit that was earned by the building corporation. It has nothing to do with the owning corporation.

The CHAIRMAN. In this instance it would be a profit to the building corporation?

Mr. FISH. Or the building partnership.

The CHAIRMAN. Therefore, they should pay a corporate tax on it?

Mr. FISH. Or individual.

The CHAIRMAN. Well, if they are not a corporation, but if they are a partnership, they would pay individual taxes?

Mr. FISH. Yes.

The CHAIRMAN. If it was a sponsoring corporation in which this same formula worked, then what would it be? Would it be a profit, an appreciation, or simply borrowed money?

Mr. FISH. You mean if the owning corporation also did the building?

The CHAIRMAN. No, if the sponsoring corporation did the building in your own name—

Mr. FISH. Then it would be a corporate profit.

The CHAIRMAN. It would be a corporate profit and they should pay corporate taxes on it?

Mr. FISH. Yes.

Mr. H. DuBois. I don't think that is correct.

The CHAIRMAN. I am talking to the tax man. I want to get a little expert advice here.

It would be a profit?

Mr. FISH. Yes.

The CHAIRMAN. And you are a certified CPA?

Mr. FISH. Yes.

The CHAIRMAN. It is a very interesting answer.

Mr. Sporkin. May I make a statement to you in this regard?

The CHAIRMAN. Yes. I hope the internal revenue people are listening.

Mr. Sporkin. While it would have been a profit it must be understood there would be depreciation on the building.

The CHAIRMAN. We understand.

Mr. Sporkin. Therefore, the answer must be this: That in that \$30,000 profit—

The CHAIRMAN. I am not talking about a \$30,000 profit. I am talking about a formula.

Mr. H. DuBois. I know what he means. There was a 3¾ percent declining balance you could use and even though you had a \$30,000 spread, like in our case at the end of the job, the depreciation would wipe it out.

The CHAIRMAN. My question was, the sponsoring corporation, the people that ended up owning the property, if all their costs were less than the total proceeds of the mortgage, the gentleman testified there would be a profit. Therefore, that corporation should pay a tax on it.

Mr. H. DuBois. I think you would get a thousand and one different opinions on that.

Mr. Sporkin. Senator Capehart, may I make a statement for the record?

Mr. H. DuBois. Is he through with the questioning?

Mr. Sporkin. We have made some great profits here.

Mr. H. DuBois. Wait a minute.

The CHAIRMAN. Let me ask you a few questions.

How much profit did you make over and above the actual costs on all the projects that you were connected with?

Mr. Sporkin. Well, personally?

The CHAIRMAN. Yes.

Mr. SPORKIN. \$75,000 in Parkway, about; something like \$60,000 in Clover, and a loss in this Margate.

The CHAIRMAN. That was your share?

Mr. SPORKIN. That is right.

The CHAIRMAN. In other words, you are talking about yourself?

Mr. SPORKIN. My personal share.

The CHAIRMAN. How much did the corporation make? You owned generally about 25 percent of these.

Mr. SPORKIN. No. My family group owned two-thirds of one. They owned 40 percent of the other, and that was all with the exception of 11 percent in Margate.

The CHAIRMAN. Do you still own these projects?

Mr. SPORKIN. No, they have been sold.

The CHAIRMAN. All of them?

Mr. SPORKIN. Yes.

The CHAIRMAN. Did you make a profit when you sold?

Mr. SPORKIN. Yes.

The CHAIRMAN. How much?

Mr. SPORKIN. In Margate Gardens, it was sold for approximately \$50,000 over mortgage.

The CHAIRMAN. Why did you sell?

Mr. SPORKIN. Why? In Margate Gardens, I built that at the behest of the FHA, who were asking for housing in Atlantic City.

The CHAIRMAN. You mean FHA asked you?

Mr. SPORKIN. That is how I got into this whole deal.

The CHAIRMAN. Did FHA teach you or show you how you could go into these projects without investing any of your own capital?

Mr. SPORKIN. They never said that.

The CHAIRMAN. What did they say to you?

Mr. SPORKIN. Mr. DuBois got ahold of me through my brother who was building in Atlantic City and suggested that if you wanted to do a good job, and do something for the housing situation, and still have a good project, there is a new development or allowance made by the Government under section 608. He interested my brother, and, as a result, I never got to be as old as my brother because he is older than I am, and we are both living at the same time—

The CHAIRMAN. He started out ahead of you?

Mr. SPORKIN. As a result he said "I am going to show you how to make some money." I was the fellow who had the money. He took me down to Atlantic City and showed me how to build some duplex apartments, and Mr. DuBois was going to do all of the paperwork for us. I got ready and started into building business, sacrificing my law practice, and when I got in there and ready we got a request from the Pomona Airbase, which is some 14 miles from Atlantic City, for the apartments that we were building. We immediately made an arrangement whereby we gave them a two-bedroom apartment, a living room, dinette, kitchen and bath, front porch and a separate unit for themselves for refrigeration and everything—they were not in any way connected with the apartments below—for \$75 to \$87.50 a month.

Now, we got those tenants in as fast as we could put them up. We got them in and after I got them 90 percent filled with the men from Pomona Airbase, one morning I got a notice that 26 were moving out in 1 day. Well, I said "What am I supposed to do with this deal?" He said "Well, this is for housing, but we will get you others." I said

"Send the 26 on, and I will take the loss between the time of the vacating of the 1 tenant to getting the new tenant," which would be about 10 days. When the new tenant came in he said he wanted to repaint it. He didn't want the colors the other fellow had, so I had a nice little operating loss of putting \$140 into an apartment that had been occupied for 3 months.

The CHAIRMAN. You lost \$140 like that?

Mr. SPORKIN. Necessarily. The agent said "Look, you have to pay me 5 percent, I went out and got this fellow." I said "You are right, you did, but I am going to pay the 5 percent." When I get these people in there I find the people in the airbase were subleasing these apartments to summer residents for more rent than they paid annually for 2 months. I said "This is the time for me to get out, and get out fast," and I did get out. I found a very fortunate buyer who took my burdens, and he can have them. It has been resold for five times since.

The CHAIRMAN. At a profit each time?

Mr. SPORKIN. I understand so. I would like to have it back if I didn't have those same tenants moving in every 3 days. I could sell—

The CHAIRMAN. Did you get paid for improvements in the building?

Mr. SPORKIN. No. That wasn't in the project. I added to it. I had an exposure. I paid the FHA insurance premium to start. They took that half point. I had been exposed to \$159,000 of invested capital and I didn't know whether I was going to get it back because I didn't get it back.

The CHAIRMAN. That was a loan?

Mr. SPORKIN. Naturally.

The CHAIRMAN. Did you get it back?

Mr. SPORKIN. I loaned it to myself. I only got part of it back.

The CHAIRMAN. At all times you owned the property?

Mr. SPORKIN. That is right. Now, I go into Parkway and they showed me how I could make some real money, and I had already forsaken my law business. I am now a builder, so I have forsaken my law business. I had better go find something to recoup some of this money and I heard of this fellow Edwards who has a reputation in south Jersey of being the top, when you buy an Edwards property you buy the best. You buy the best.

The CHAIRMAN. That is his slogan?

Mr. SPORKIN. That is right, and as a result I convinced Mr. Edwards and his group, with an understanding, Senator, that he could have the right to hire and fire, he didn't have to put any money into this deal; I would put it all in. All I wanted was the privilege to go out and buy at his order and at his price approval. I was exposed, before I ever heard of mortgages to \$310,000.

The CHAIRMAN. You mean that is the money you borrowed?

Mr. SPORKIN. I gave it to them.

The CHAIRMAN. You loaned it to them?

Mr. SPORKIN. That is right. I was lending to myself again.

The CHAIRMAN. You took out of one pocket and put it in the other?

Mr. SPORKIN. That is right. I couldn't use it. I couldn't even buy a Coca-Cola from the money I gave them.

The CHAIRMAN. That is an interesting thing. That is what we find in all the hearings in all these projects. When they talk about these big investments, and these big loans.

Mr. SPORKIN. Wait a minute. I am a candidate now. I have to clear this thing up.

Now, I go into another project, and I go into Clover Hills, and the very famous thing happens there. The famous Edwards name travels nationwide, and it gets to Washington, and they start to ask us to build under the Wherry Act over in McGuire Field. The minute I heard Wherry Act—I had enough section 608, I was putting the dough out, never knew I would get it back, but I figured with Edwards' ability as a builder, and my ability as a buyer and trader, I got the idea to buy everything at its source, locks, lumber, and so forth, and I feel the savings effected would be giving me back the protection I wanted. If I hadn't effected those savings in the buying, I would have been destroyed in Parkway.

The CHAIRMAN. In other words, you were buying for wholesale?

Mr. SPORKIN. Less than wholesale.

The CHAIRMAN. Less?

Mr. SPORKIN. That is right.

Mr. H. DuBois. Could I say one thing, Senator? In fairness to your question to Mr. Sporkin, he was not only exposed to these loans, but in the building of Parkway Apartments, Edwards Building Co. was a partnership, and each and every one of the members of that partnership were personally liable for the entire construction cost of that project. In addition to that, and I think this sometimes might have been missed in previous testimony on other builders, we were required, each one of the sponsors and wives, to sign a personal guaranty of completion.

The CHAIRMAN. There is no question about that. We are not trying to find fault with that. All we are saying is that you build these projects, and when they were finished you owned them. You didn't sell them to a third party. You continued to own them. My point is it is hard for me to understand how you can make a profit on something that you continue to own.

Mr. H. DuBois. Senator, one thing—

The CHAIRMAN. It is easy to understand if you built one of these projects, and sold it for \$1 million more than it cost you, as a third party that is a profit.

Mr. H. DuBois. It is very possible.

The CHAIRMAN. That is why we do not go into the 2- or 3-sale houses. They are handled on that basis, but in all these projects, section 608's, 603's, 207's, 213's, and the Wherry Act, they are projects which you gentlemen—and all others—you build them and when you were finished you owned them. We are trying to find out how you can build something, continue to own it, and make a profit on having built it.

Mr. H. DuBois. The only way that happens is because you do your own building, and I think—I brought it out in previous testimony—that if we had the ground and we got a commitment from FHA, and we got, say, some big construction company, like Turner or Fuller to build it, then obviously we would not make a profit, and I don't think you would be questioning Turner's profit or Fuller's today, but with my 16 years' experience on the paperwork and handling—

The CHAIRMAN. You see if you were your own builders——

Mr. H. DuBois. We were.

The CHAIRMAN. If you were your own builders you would build this project for \$1 million. You would get a \$1 million mortgage. Of course, you had the expense of building, and you add your time and effort into it, and had you built that project for somebody else, a third party, you would no doubt have been entitled to a profit of maybe 5 to 10 percent, but you built it for yourself, and when you got all through you continued to own it. You owned it and you hadn't sold it. You borrowed, or the Government advanced you \$900,000. That is what it cost you. In many instances, and in your case, we find you not only built it for \$900,000 but you got a mortgage for one million or one million and a half, which was a hundred thousand or one hundred fifty thousand—in some cases we have had as high as \$6 million more than the cost.

The point is, is that a profit?

Mr. Sporkin. Senator—Mr. DuBois has been sworn, and he is quite familiar with research on the Congressional Record and history of section 608 and rental housing, I think he should be given an opportunity so your committee could be enlightened.

The CHAIRMAN. I think the committee is pretty well enlightened.

Mr. Sporkin. Read your facts.

The CHAIRMAN. I don't think we will take the time. It is repetition, I presume, of the questioning and colloquy. We would like to have it in the record.

Without objection, we will make your statement there a part of the record.

(The material referred to follows:)

LAW OFFICES: JOSIAH E. DuBOIS, JR.,
HERBERT G. DuBOIS, MADISON S. DuBOIS,
Camden, N. J., July 14, 1954.

HON. HOMER E. CAPEHART,
*Chairman, Senate Banking and Currency Committee,
United States Capitol, Washington, D. C.*

DEAR SENATOR CAPEHART: Reference is made to the hearings held before your committee in executive session shortly after 11 a. m., Friday, July 9, 1954, relating to the FHA 608 projects known as Parkway Apartments (Haddonfield, N. J.) and Clover Hill Gardens (Mount Holly, N. J.) and certain other projects in which Charles H. Sporkin and/or my brother Herbert G. DuBois had an interest.

As you will recall, your general counsel Mr. Simon asked my brother whether he knew that as of 1947, Congress changed the law to eliminate mortgaging out. At that time I volunteered to testify under oath concerning the congressional history of section 608 of the National Housing Act and indicated that I did not believe the congressional history supported the interpretation put on the act by Mr. Simon. You suggested that I send the data which we had gathered to you.

I feel privileged in being able to forward to you the attached material since I know that you are sincere in your desire to get at the bottom of this whole matter.

I am firmly convinced that if you should examine the congressional history of section 608 of the National Housing Act in detail, you would agree with me that not only did Congress fail to insert any provision in said act to prevent mortgaging out or building for less than the mortgage insofar as section 608 is concerned; but that quite to the contrary, Congress knew that builders were mortgaging out and making profits before the act expired, and that Congress even extended the provisions of section 608 with full knowledge of this situation. You will even find that a number of Senators, including yourself, made an effort to "stop this sort of thing" in 1951, insofar as defense housing (sec.

908) was concerned. On September 1, 1951, a provision designed to prevent mortgagors from making "profits on mortgages" was inserted in section 908 of the National Housing Act. Insofar as military housing under title VIII is concerned, a similar provision was inserted for the first time by an act of June 30, 1953.

The following is a brief summary of some of the material contained in the Congressional Record relating to this problem :

(1) In the report of the House Committee on Banking and Currency submitted on February 14, 1946, concerning Veterans' Emergency Housing Act of 1946, the fact that a national emergency existed because of a critical housing shortage in moderately and low-priced homes and apartments was pointed out. There was an urgent need for 3 million homes and apartments in 2 years. An excerpt from this House report is attached hereto and marked "Exhibit A."

(2) When section 608 of the National Housing Act was amended in August 1948, a number of Senators and Congressmen, including Senators Taft and McCarthy and Congressman Wolcott, pointed out the importance of continuing section 608 because of the urgent need for rental housing units. Excerpts from speeches by Senators Taft and McCarthy and Congressman Wolcott in August 1948 are attached hereto as exhibit B.

(3) When section 608 was amended on August 10, 1948, the following proviso was added :

"And provided further, That the principal obligation of the mortgage shall not, in any event, exceed 90 per centum of the Administrator's estimate of the replacement cost of the property or project on the basis of the costs prevailing on December 31, 1947, for properties or projects of comparable quality in the locality where such property or project is to be located."

I assume that this is the amendment which Mr. Simon had special reference to. In connection with this amendment, attention is directed to the statements of Senators McCarthy and Taft and Congressman Wolcott referred to above. Attention is also directed to the fact that it was made clear in both the Senate and the House, at the time this amendment was discussed, that the limitation was merely designed to prevent the already liberal insurance provisions from being used to support additional increases because of rising costs. You will note that this proviso as well as the provision concerning "necessary current cost," uses the "administrator's estimate" of cost as the basis, not actual cost. The purpose of this amendment in 1948 had no relationship whatsoever to the problem of "mortgaging out" or "making a profit on the mortgage." In this connection, there is attached hereto as exhibit C a statement by Senator Flanders in the Senate concerning the amendment and a statement by Congressman Boggs in the House.

(4) When section 608 was about to expire early in 1950, a number of Senators and Congressmen urged its extension so as to cover applications already filed but not acted upon, with full knowledge that builders were not only "mortgaging out" but also making substantial profits "on the mortgage." Section 608 was so extended with full knowledge of this situation on the part of both the Senate and the House. In this connection, there is attached hereto as exhibit D excerpts from statements by various Senators and Congressmen in March 1950.

(5) Section 908 of the National Housing Act relating to defense housing was amended in 1951, as a result of your effort and the effort of several other Senators, by inserting a provision requiring that the mortgagor should certify as to his actual costs and that if the mortgage loan exceeded the actual costs, the mortgagor should pay to the mortgagee the excess of the mortgage loan over costs in reduction of the principal. This was the first time that any provision was ever written into any section of the National Housing Act designed to prevent a mortgagor from "making a profit on the mortgage." It should be noted that even this provision in September 1951 still recognized the possibility that the mortgagor might be able to build for less than the amount of the mortgage loan. This provision still does not prevent a mortgagor from "mortgaging out" since it merely requires that if his construction costs are less than the mortgage, he shall use the difference in reduction of the principal of his mortgage. The debates on this both in the Senate and in the House are most revealing. You may recall that you yourself at that time, referring to the Senate provision, stated in part as follows in April 1951 :

"Much was said about making a profit on the mortgages. The committee discussed that at great length. For the first time in the history of housing legis-

lation, there was written into the bill a provision to put a stop to that sort of thing. * * * It was the intention of the committee to make it impossible for any person to get more from his mortgage than the improvement actually cost. * * * Such an amendment providing that no one can receive one penny more than the actual cost has never before been written into a housing bill. * * * Whether or not we have done as good a job as could have been done on section 608, by eliminating the possibility of persons making a profit on the mortgages, a question which has been referred to, I wish to say again that this is the first time in the history of a housing bill when any effort has been made to accomplish that result."

Excerpts from the debates on the floor of the Senate and the House in 1951 are attached hereto as exhibit E.

(6) On June 30, 1953, a provision similar to that inserted in the Defense Housing section in September 1951 was added to title VIII relating to military housing. As you may recall, at that time you made a statement for the managers on the part of the Senate on the Conference Report, which statement read in part as follows:

"The Senate receded to the House and accepted its amendment relating to 'mortgaging out' on section 803, military housing. This would have the effect of preventing builders from making a profit on their mortgages. A similar provision was originally included by the Senate Banking and Currency Committee in section 908 of the Defense Housing and Community Facilities and Services Act of 1950."

The interpretation of section 608 was involved in a case decided by the highest court in the State of Maryland in 1950. In that case the Court of Appeals of Maryland took cognizance of the fact that the act was most liberal and had been administered so as to permit "making profits on the mortgage." In *Levin v. Stratford Plaza, Inc., et al.* (76 A 2d 558 (1950) (Court of Appeals of Maryland)) the court said in part at p. 560:

"In practice (whether correctly or not) the Commissioner has construed 'the necessary current cost of the completed property or project' as meaning present 'replacement cost,' and not actual cost already incurred plus estimated further cost, of a particular project. * * * The purpose of FHA was to stimulate housing construction, not to make profits by insuring sound loans. This purpose presumably was furthered by making possible such projects of speculators with little capital and no credit."

This data is submitted to you with the hope that it may be of some slight assistance in shedding light on the matters under investigation. If there is any further information which we can supply or any way in which we can be of further assistance, I will be most happy to cooperate.

I am sending copies of this letter to Senator Wallace F. Bennett and William Simon.

Sincerely yours,

JOSIAH E. DuBois, Jr.

EXHIBIT A

HOUSE COMMITTEE ON BANKING AND CURRENCY

(H. Rept. No. 1580, Feb. 14, 1946)

HOUSING EMERGENCY

A national emergency now exists because of the critical housing shortage. Existing facilities are inadequate to house large segments of the population and large numbers of veterans are returning to civilian life in need of housing accommodations which are not available. It is necessary for the health and safety of the people that all facilities of the United States Government be made available and coordinated to obtain a maximum amount of housing.

The critical shortage of housing accommodations is the result of necessary curtailment of housing construction during the war in order to divert the materials and manpower of the housing industry from normal peacetime functions to the furtherance of the war effort. The housing emergency is more acute than it might otherwise be because of the fact that an inadequate number of new homes were constructed during the peacetime years preceding the war. The emergency has recently become more acute as the result of large numbers of veterans of World War II returning to civilian life.

It is estimated that some 2,900,000 married veterans of the recent war will be in need of housing facilities by the end of the year 1946. With the existing housing pool in the country totaling some 29 million units, surveys showed that in October 1945 there were approximately 1,200,000 families living doubled up. And this figure is increasing proportionately with the rate of demobilization of the Armed Forces. To meet the housing emergency there is an urgent need for some 3 million moderately and low-priced homes and apartments during the next 2 years.

EXHIBIT B

CONGRESSIONAL RECORD

(Aug. 5, 1948, vol. 94, pt. 8, p. 9863)

Mr. McCARTHY. * * * However, we have retained section 608, the one dealing with rental housing. We provide for an additional \$800 million authorization.

I may say that we have talked to any number of men in the Housing Administration; and although their position is that they favor, as does the Senator from New Hampshire [Mr. Tobey], slum clearance and public housing, nevertheless they tell us that unless section 608 is reactivated there will be a great slump in home building during the present year. I think there is no doubt about that.

(P. 9925)

Mr. TAFT. The other main defect in the housing program has been the difficulty of getting anyone to build houses for rental; that is, larger scale projects on which the houses can be rented to a number of families. There was practically no success under title II of FHA in getting such rental houses built. The only sign of some kind of rental housing occurred under section 608, title VI, which is, I think, perhaps somewhat too liberal for builders, but under that some building of house rental projects was undertaken. So we have decided to continue section 608, hoping it may encourage the building of rental housing rather than the building of houses for sale, the sale of which is forced on many veterans who should not have to buy them, and who would prefer to live in rental housing.

(P. 10207)

Mr. WOLCOTT. Mr. Speaker, in the many years I have been in the House, I have never seen a bill which was perfectly satisfactory to every Member. * * * It is designed to accelerate the production of apartment houses in the big cities and if the bill is administered as we hope it will be administered, it will result in building thousands and thousands of rental units in cities where the housing is most needed * * * and it will follow if this bill is passed—that building material and labor will be channeled into the low-cost housing field and into the construction of apartment units in cities where they are needed the most.

The Housing Act of 1948 is designed to attack the existing housing emergency as well as to provide a broadened long-range program of low-cost housing in the homeownership and rental fields. It will encourage now an accelerated production of low-cost homes. It will encourage now an expanded production of rental housing units.

EXHIBIT C

CONGRESSIONAL RECORD—SENATE

(Apr. 14, 1948, vol. 94, pt. 4, p. 4419)

Mr. FLANDERS. * * * Therefore, in connection with large scale rental housing under section 608, where the formula of 90 percent of necessary current cost is retained as the statutory basis for insuring loans, the legislation adds a further limitation designed to prevent this rather liberal insurance from being used to support any additional increases in the costs or prices of housing. We provide that in no event shall the insurance granted thereunder be for more than 90 percent of the replacement cost of the particular project on the basis of the costs prevailing in the locality on December 31, 1948, for projects of comparable quality.

CONGRESSIONAL RECORD—HOUSE

(Apr. 7, 1948, vol. 94, pt. 3, p. 4207)

Mr. Boggs. * * * Because of the desirability of expanding the volume of rental housing, replacement cost would be the basis for mortgage insurance written under section 608, but such cost would be pegged to December 31, 1947, levels in order to resist further rises in costs. One-half of the additional insurance authorization of \$2 billion would be reserved for rental housing.

EXHIBIT D

CONGRESSIONAL RECORD—SENATE

(Feb. 24, 1950, vol. 96, pt. 2, p. 2327)

Mr. Long. * * * I am sure the Senator will agree with me that the evidence we have been getting before the Committee on Banking and Currency is to the effect that under section 608 the Government is frequently lending more to the contractors than is required to build the housing projects; and that in many cases section 608 projects are being built with Government-guaranteed loans substantially exceeding the actual cost of construction of the project, and that, in large measure, is what has been responsible for the large flow of loan applications. Furthermore, the Committee on Banking and Currency last year recommended that the guaranty be reduced from 90 percent to 80 percent, recognizing the fact that many of the loans represented no actual equity in the investment at all on the part of the person who would own the properties and that they were very high-rent properties, which, in many cases, are now standing vacant because the rents are so high.

CONGRESSIONAL RECORD—SENATE

(Mar. 14, 1950, vol. 96, pt. 3, p. 3291)

Mr. Long. * * * I wonder if the Senator is aware that under section 608 loans may be actually unsound and represent loans for housing development in amounts far greater than the cost of building the houses?

Mr. Wherry. That is completely beside the point. In the resolution which I offered I did not in any way ask for an extension of the act. The provisions of section 608 were fought out on the floor of the Senate at one time. Those of us who have been against the giveaway money and giveaway show have opposed all this so-called housing. I am not going into the merits of the act. I have forgotten the exact vote on section 608 when it was finally adopted. I do not know anything about that. However, that is not what is being attempted to be done by the proposed legislation or by the resolution. It all goes back to the provisions of the act. Whether the provisions were right or wrong is completely beside the point.

Mr. Long. * * * Does the Senator believe that the Federal Government should guarantee loans in the amount of hundreds of millions of dollars, or possibly a billion dollars, if the loans are actually unsound and represent loans for housing developments in amounts far greater than the cost of building the houses?

Mr. Wherry. Mr. President, my record in the Senate is an answer to the Senator's question. I say once again that that is not the question which is involved here. It is not a question of whether the act was inflationary, or whether it was a poor risk, or whether this or that should not have been done. If I had my way, private enterprise would take care of all the housing we could possibly get, so far as I am concerned.

Mr. Long. * * * Does not the Senator feel that when the Committee on Banking and Currency in October of last year reported a new housing bill which cut down the guaranty from 90 to 80 percent, it served notice on people who wanted section 608 projects that they would have to put some equity into them? Does not the Senator feel, further, that with the limited amount of money available under section 608, notice was served that there simply was not going to be any more money after the money which had been allotted for that purpose had run out?

Mr. **WHERRY**. Mr. President, the Senator asks me too many questions, and they are double-barreled in several respects. No one desires sounder loans than does the junior Senator from Nebraska. I am not staying that the security should be 80 percent, or 90 percent, or 75 percent. I should like to say to the distinguished Senator from Louisiana that if he felt that way about it, long before this was brought to my attention he could have offered an amendment to do the very thing he is suggesting. I am quite satisfied that no one would feel more kindly toward getting a safe loan than I do. However, I doubt that Mr. Foley would agree with the Senator from Louisiana.

Mr. **LONG**. I should like to say to the Senator from Nebraska, that I offered an amendment in committee calling for 80 percent, and Mr. Foley agreed with it.

Mr. **WHERRY**. I wondered whether he would agree with such a provision. So far as I am concerned, there is no one who would rather have a safe loan than I would. However, once again I should like to say to the Senator from Louisiana that the question is as to the legislation itself and it runs to the merits of the bill. It has nothing to do with the joint resolution which has been introduced by the junior Senator from Nebraska, not any more than legislation on an entirely different subject would have to do with the joint resolution I offered.

Mr. President, a constituent of mine worked for more than 5½ months to develop 1 project; he put up his money; he made the survey; he got everything ready; he got the loan; he put up his 1½ percent; and his application has never been looked at by the Department here. I know the Senator from Louisiana realizes that is not fair or right or just. Regardless of the merits of the legislation, he knows that that man is entitled to his day in court, and either rejected or approved.

Mr. **LONG**. Mr. President, will the Senator from Nebraska yield?

Mr. **WHERRY**. I am glad to yield once more.

Mr. **LONG**. If a man has worked 5 months to get up this wonderful project, would it not seem logical that he would have enough confidence to put up a little of his own money?

Mr. **WHERRY**. He put in all of his money that the provisions of the act required. He is just as much of an enterpriser as I am, and he is just as safe and sound as is the Senator from Louisiana. Whatever the conditions were, that man would meet them, and if we wrote in 80 percent, he would be one of the first to comply. He is one of the most honorable men I have ever known. He is merely doing what the legislation itself provides. If there is anything wrong with the legislation, it should have been amended a long time ago.

(P. 3376)

Mr. **LONG**. Mr. President, I offer and send to the desk an amendment to perfect the amendment which I offered yesterday. The amendment deals with the proposed title 207 of the present bill, providing that a loan up to 90 percent may be made on rental units, when the cost of the average unit does not exceed \$7,000.

Yesterday, I explained how under title 608, builders are building such projects at anywhere from 80 to 70 cents on the dollar of the estimated cost, and are pocketing the difference between 90 cents and the 70 or 80 cents which it cost them to build those housing projects.

CONGRESSIONAL RECORD—HOUSE

(Mar. 14, 1950, vol. 96, pt. 3, p. 3865)

Mr. **BROWN** of Georgia. Mr. Chairman, I rise in support of the committee amendment. I desire to say a few words in reference to the amendment to section 209 offered by the Banking and Currency Committee which will permit the insurance under section 608 of the National Housing Act of mortgages where the application was filed prior to the expiration of this section.

As we all know, this section of the Housing Act provides for the insurance of rental housing loans up to 90 percent of the current cost of a project. This section was first enacted as a war measure in order to encourage the construction of housing for warworkers and since the war it has been extended from time to time because of the housing shortage.

The section expired on March 1, 1950, and it has been decided not to extend it further. With this decision, I heartily concur. However, its expiration brought about conditions that will cause many builders and others throughout the country to suffer severe loss on both effort and money.

They should have their applications processed and if they are eligible they should get their commitments and if they are not then they should not get them.

I do not think they should be thrown out simply because for one reason or another their applications were not reached for processing as soon as some others. The one has an equal right with the other under the law of fair play and good conscience. We are told that section 608 was too liberal and inflationary, and therefore should not be continued, but that is not the question we are dealing with today.

The Congress passed this act and if it was too liberal that is the responsibility of the Congress. We are not concerned today with whether the law was sound or unsound.

My position is that having passed the act we should not now desert those who in good faith did what we asked them to do at substantial cost to themselves. We should give them equal opportunity with those who were simply more fortunate in getting their applications acted on. We should make it possible for them to have their applications either granted or denied on their merits and not by the wheel of fortune.

Mr. KEEFE. * * * I want to congratulate the committee on meeting what is a very emergent and critical condition in the building industry with respect to this very title to which this amendment applies. I think it will go a long ways in giving justice to those who did not come through under the wire of the old limitation and allowing those projects to go ahead and be built.

Mr. BROWN of Georgia. I thank the gentleman for his contribution.

Mr. DAVIS of Wisconsin. Mr. Chairman, will the gentleman yield?

Mr. BROWN of Georgia. I yield to the gentleman from Wisconsin.

Mr. DAVIS of Wisconsin. I would like to commend the gentleman for his fine statement, because I have several projects in my district that were caught short, mostly because of the lack of knowledge, and this will take care of it in good shape.

Mr. BROWN of Georgia. I thank the gentleman. That is true of many sections in the United States.

Mr. FORD. Mr. Chairman, will the gentleman yield?

Mr. BROWN of Georgia. I yield to the gentleman from Michigan.

Mr. FORD. I would like to add also that in Michigan several projects exist that are in a distressed condition, and we are in great need of this type of legislation.

CONGRESSIONAL RECORD—HOUSE

(Apr. 6, 1950, vol. 96, pt. 4, p. 4917)

Mr. SPENCE. Mr. Speaker, this conference report is the unanimous agreement of all the conferees. We think we have brought back to the House a conference report that should be approved unanimously. While it was necessary to give and take, I feel confident that we have brought back as good a bill as the House passed. I think that in many of the things in which the people are most interested the bill is excellent.

We have provided for the processing of applications made under section 608 of title VI to March 1, 1950, and have provided for \$500 million insurance authority to process such applications. This will prevent those people who had applied for section 608 insurance and many of whom had expended large sums of money from being deprived of the benefits of such insurance.

Mr. EBERHARTER. Mr. Speaker, will the gentleman yield?

Mr. SPENCE. I yield.

Mr. EBERHARTER. I congratulate the able chairman of the Committee on Banking and Currency and the conferees for the report which they have brought back to us. Particularly do I want to congratulate him in continuing the provisions of section 608 until March 1, 1950. Do the conferees believe that the \$500 million will take care of all applications which were on file prior to March 1?

Mr. SPENCE. It is our best judgment it will take care of them. Of course the other body provided \$400 million, and we split the difference. We not only continued it, but we are continuing it on the same basis as it heretofore existed; that is, on the 90 percent basis.

All of the people, therefore, who have applied, if they obtain commitments, will proceed in the manner that they thought they anticipated.

The other body provided for only 85 percent insurance, but they agreed to the House amendment of 90 percent.

I think it will take care of all the applicants up to March 1.

EXHIBIT E

CONGRESSIONAL RECORD—SENATE

(Apr. 5, 1951, vol. 97, pt. 3, p. 3340)

Mr. MAYBANK (Re the Defense Housing and Community Facilities and Services Act of 1951). The committee did not think it was necessary to be as liberal as we were in the old 608 program. By providing a less liberal appraisal method—the valuation method as opposed to the “necessary current costs” method in 608—together with the provision which the Senator from Illinois succeeded in adding to the bill—which I understand will be further amended, because, as I told the Senator from Illinois, I do not think that, as it stands, it would result in the construction of the houses needed—I believe we have succeeded in making the inducement sufficiently worth while to get the rental housing built that is needed, and, at the same time, not allow the builder to make a profit on his insured mortgage. * * *

(P. 3349)

Mr. LONG. I assume then that the Senator is willing to write effective language into the bill which will assure that the builder will not receive more money than he is actually required to expend to build the housing units.

Mr. BENNETT. That is correct. All the proposed variations of this section, as well as the section, as it stands in the bill as reported, require a certification from the builder that he has not in fact received more money than the cost of the building, and require him to return such excess, if he has received it. The only difference is in the technical requirements of such certification. I would certainly oppose the bill if it still permitted a builder to take out of his mortgage more money than he put into the cost of the process.

Mr. LONG. I certainly hope that has been worked out because as a former member of the committee I had several times attempted to achieve that result, invariably without success, but I believe that sooner or later we should accomplish it.

CONGRESSIONAL RECORD—SENATE

(Apr. 9, 1951, vol. 97, pt. 3, p. 3493)

Mr. CAPEHART. Much was said about making a profit on the mortgages. The committee discussed that at great length. For the first time in the history of housing legislation, there was written into the bill a provision to put a stop to that sort of thing. I call attention to the fact that the able Senator from Illinois [Mr. Douglas], the able Senator from Louisiana [Mr. Long], and many of the Senators on our side of the aisle, discussed that at great length. It was the intention of the committee to make it impossible for any person to get more from his mortgage than the improvement actually cost. That was our intention. * * *

Such an amendment providing that no one can receive one penny more than the actual cost has never before been written into a housing bill. If this housing bill is what the able Senator from Minnesota says it is, then the housing bills which Congress has been passing for many years are certainly 100-percent giveaway programs. In past year I have not heard the able Senator condemning previous housing bills. I say this is a better bill for both the American people and the Government. * * *

Mr. DOUGLAS. I thank the Senator from Indiana. I deeply appreciate the very friendly references which the Senator from Indiana made to the Senator from Illinois. I think the Senator from Indiana [Mr. Capehart] and the Senator from Utah [Mr. Bennett] deserve a great deal of the credit for the constructive work which has been done in the effort to eliminate some of the abuses which attached themselves to section 608. But I am also afraid that the Senator from Indiana was a bit too hard on my good friend the junior Senator from Minnesota [Mr. Humphrey]. It is not certain that we have blocked all the gaps which caused section 608 to go wrong. We have made an honest effort to do so, but it is not certain that we have achieved our end. Furthermore, I think the junior Senator from Minnesota was anticipating a move to eliminate the public housing section and was pointing out the fact * * *.

Mr. CAPEHART. Mr. President, I think the able Senator from Illinois has let the cat out of the bag. He says the junior Senator from Minnesota thought that we were going to eliminate title III. We did not do it. I rather suspect that the speech of the able Senator from Minnesota was prepared before any action was taken on title III. I am mindful of the good work which the able Senator from

Utah did on the bill. Whether or not we have done as good a job as could have been done on section 608, by eliminating the possibility of persons making a profit on the mortgages, a question which has been referred to, I wish to say again that this is the first time in the history of a housing bill when any effort has been made to accomplish that result. It is unfortunate that the Senator from Minnesota should be critical. I think it is uncalled for. * * *

CONGRESSIONAL RECORD—HOUSE

(Aug. 14, 1951, vol. 97, pt. 8, p. 9965)

(Re new title IX)

Mr. BROWN. In order to correct one of the abuses that existed under the old 608 program, namely, the mortgaging out of the owner, we have provided that the insurance be granted on a valuation basis rather than the "necessary current costs" basis used in the old title VI operation and have added a requirement for certification of construction costs in the section 908 program. (This same bill extended the Wherry Act but it didn't change it.)

CONGRESSIONAL RECORD—HOUSE

(Aug. 15, 1951, vol. 97, pt. 8, p. 10075)

Mr. JACKSON of Washington. * * * Under the former section 608 program of guaranteeing mortgages, it was possible for the mortgagor to build an apartment house without putting any money of his own into it, and in some cases to sell it at a profit as soon as he had built it.

Part of the difficulty was in the old law, section 608, itself, which set the mortgage amount at the necessary current costs instead of the appraised value of the project, as in the new section 908 in S. 349, which is before us today.

Part of the difficulty, to be perfectly candid, was in the administration of the program by the FHA, which is why some safeguards were written into the law itself by the Senate which ordinarily would be left to administrative regulations. * * *

What the language adopted by the Senate did was to require the mortgagor to certify whether or not the actual costs of the building—exclusive of the land and offsite utilities—exceeded the amount of the mortgage; and if the amount of the mortgage exceeded the cost of the building—because of inaccurate appraisal—the mortgage should be reduced to the actual costs of the building—that is, the borrower would pay back to the bank the amount of the excess, and reduce the amount of the mortgage. Thus there could be no profit on the mortgage itself, and there would have to be an equity investment by the mortgagor represented by (a) land, (b) organization and legal expenses, and (c) offsite utilities, such as sidewalks, if any. * * *

I have no hesitancy in saying that in connection with the section 608 program that there have been many abuses. Part of the blame lies on the administration of section 608 by the FHA. That is why the Senate tried to close the loopholes in the law instead of leaving them to administrative regulation. But part of the blame lies with Congress in writing in the formula of necessary current costs which opened the way for the abuses. Congress will be at fault again if we do not close as many loopholes as possible in this law.

I am sure that the Congress would not want to condone those abuses that have occurred in the past by allowing them to be incorporated once again in this program. * * *

Mr. AUGUST H. ANDRESEN. I am surprised that there have been such practices to which the gentleman has called our attention.

Mr. JACKSON of Washington. If the gentleman would check he would find that they have occurred in practically every State in the Union. I am just interested in getting this program on a decent basis so we will not permit this thing to happen in the future. They have eliminated many of these abuses now, but they did happen in the past.

Mr. AUGUST H. ANDRESEN. The gentleman demonstrates that we have had some poor administration of the program.

Mr. JACKSON of Washington. I am not saying that the administration was perfect; but I am saying that Congress did not live up to its responsibility in that we did not write safeguards into the law, and we should not repeat our errors. * * *

Mr. J. DuBois. Could I briefly summarize?

The CHAIRMAN. How long will it take?

Mr. J. DuBois. I will try to do it in 5 minutes. I said, if you recall in executive session—this question of whether or not section 608 contemplated mortgaging out or making a profit came up and I sent you a letter shortly thereafter, containing the congressional history of section 608.

The CHAIRMAN. That is a part of our executive hearings.

Mr. J. DuBois. I started with a statement of which I am glad to read one sentence, which I am sincere about, that I said I was privileged in being able to forward in to you because I knew you were sincere in your desire to get at the bottom of this matter.

Then I went on and pointed out that I was firmly convinced that if you would examine the congressional history of section 608 that you would agree with me that not only did Congress fail to insert any provision in said act to prevent mortgaging out, or building for a profit, but, Senator, quite to the contrary, Congress knew that the builders were mortgaging out and making profits before the act expired. Congress even extended it to provisions of section 608, with full knowledge of this situation. You will even find, Senator, that a number of Senators, including yourself—and I think you can take credit for this—in 1951 finally said, on the floor of Congress, after section 608, mind you, had expired, that it was time to put a stop to this, but before that, Senator, in 1950, this act came up for extension. It was a question of appropriating another, I think, about \$500 million. A number of Senators and Congressmen, of course, had their constituents, who were interested. Some Senators and Congressmen got up, including Senator Long, and pointed out that the builders were making profits on these deals. In fact, Senator Long said that some builders were building for 60 to 70 percent, and I have this in the record, of the mortgage. At that time, Senator, despite that testimony, the Senate did effectively extend the operation of section 608.

The CHAIRMAN. Let me answer you this way. I think you are substantially correct in what you say. The thing you fail to tell us is that the Senators said that they had rumors to the effect that it was. We had before us Mr. Powell, who was in direct charge of the program, and asked him if that was true, if it was possible, and his answer was that it was absolutely untrue. It was impossible, that the worst that they could miss their appraisals by was 2 to 3 percent. Mr. Clark, who was the head of the mortgage bankers or the builders—I forget which—he said it was bar talk, and all the Government witnesses, and all the trade witnesses—I don't want to say all—assured us when we were suspicious of what was happening, that it wasn't going to, that it couldn't happen and we accepted their word, the Congress did and the members of this committee.

Mr. J. DuBois. Senator, I have here in this document speeches by a number of Senators and Congressmen in which they said it was a nationwide practice for builders to make a profit.

The CHAIRMAN. Of course it is.

Mr. J. DuBois. On section 608's.

The CHAIRMAN. On section 608's.

Mr. J. DuBois. Yes.

The CHAIRMAN. If it was a practice for them to make a profit, it was also a practice for them to pay taxes on it.

Mr. J. DuBois. That is right.

The CHAIRMAN. I am afraid a lot of them haven't done it.

Mr. J. DuBois. That may be. Even you, yourself, Senator, in April, 1951, after section 608 had expired, you, with, I would say, much commendation should be given to you for it, insofar as defense housing was concerned, finally said that:

Let's stop this question of builders making a profit.

Mind you, this was in 1951, after section 608 was expired and here is what you said:

Much was said about making a profit on the mortgages. The committee discussed this at great length.

This was 1951:

For the first time in the history of housing legislation—

this is April 1951—

there was written into this bill a provision to put a stop to that sort of thing. It was the intention of the committee to make it impossible for any person to get more from his mortgage than the improvement actually cost.

Such an amendment—

this is April 1951—

providing that no one can receive one penny more than the actual cost, has never before been written into any housing bill.

Then you went on to say:

Whether or not we have done as good a job as could have been done on section 608 by eliminating the possibility of persons making profits on mortgages, I wish to say again that this is the first time in the history of a housing bill when any effort has been made to accomplish that result.

Several other people, Senators and Congressmen—

The CHAIRMAN. I think that is correct, and that was my position then and it is my position now. The Senators were suspicious of it over a period of years. Those running it, particularly Mr. Powell, who ought to have known because he had the facts, continually was assuring the Congress, the industry was continually assuring the Congress, it couldn't happen. It had happened. Let me say this, after that statement you read and after tightening of the law, we understand they are still doing it under defense housing, under section 207 and under other sections.

Mr. J. DuBois. If I could read two more brief statements, Senator—Mr. Jackson—

The CHAIRMAN. Who is Jackson?

Mr. J. DuBois. Congressman Jackson of Washington.

The CHAIRMAN. Is this in the House?

Mr. J. DuBois. Yes. He said this, when the question came up of builders making a profit—he said:

I am not saying the administration was perfect but I am saying that Congress did not live up to its responsibility in that we did not write safeguards into the law.

And one more statement which will show you what happened in 1950, when this act, Senator was extended by the Congress, an appropriation of \$500 million—I believe it was an authorization of \$500 mil-

lion—in 1950, this is my last statement—1950, the act was extended, and Mr. Davis of Wisconsin took the floor and said:

I would like to commend the gentleman for his fine statement—
which was a statement about the amendment extending it—

because I have several projects in my district that were caught short, merely because of lack of knowledge, and this will take care of them in good shape.

The CHAIRMAN. Let me say this: If it was a profit, and you seem to think it was, and Congress seemed to be talking about it in the quotes you made there, a lot of the builders had better take a good look at their income tax returns.

Mr. SIMON. I would like to ask one question: Do you think that section 1010 of the Criminal Code is a safeguard that Congress wrote into the law to protect this situation?

Mr. H. DUBOIS. I certainly don't see any relationship of that section to this situation, Mr. Simon.

Mr. SIMON. Doesn't section 1010 of the Criminal Code provide criminal penalties for making false statements to the Government?

Mr. H. DUBOIS. I don't know what particularly you are referring to, Mr. Simon, but obviously if there were people who made false statements to the Government, we know, we all know, I was in the Government for a number of years myself, of course that comes under the Criminal Code.

Mr. SIMON. And if the applications for mortgage had truly reflected the builder's estimates of costs, FHA could not have given the commitment they gave; could they?

Mr. H. DUBOIS. Mr. Simon, if I may say this, quite frankly, and I am going to get a little bit emotional if you don't mind—you can check, and anyone can check, in South Jersey, you will find that my brother is one of the most honorable—I am going to finish this—

The CHAIRMAN. We are not talking about that.

Mr. H. DUBOIS. One of the most honest persons I ever knew.

The CHAIRMAN. He is not talking about your brother.

Mr. J. DUBOIS. He is making an inference. That application that you refer to, made out with the FHA officials, at their suggestion, in accordance apparently with the wishes of Congress, at least with the sanction of Congress, is no more an untruthful statement than any statement that has been made here today.

The CHAIRMAN. Let me say this to you: that if your brother or any other brother or 2 brothers or 7 brothers are making out one of those applications for a mortgage, and put down figures they knew were untrue, he violated the statute.

Mr. J. DUBOIS. Naturally, but that never happened and you know it did not happen. The application refers to questions of estimates.

Mr. H. DUBOIS. Senator, as far as that application that I prepared, I do not even remember when I signed it or one of my associates. I have tried to point out to you it was a question of intent. There was certainly never any intent to deceive anybody.

The CHAIRMAN. We aren't saying there was.

Mr. H. DUBOIS. I didn't know, Mr. Simon, whether you were trying to tie me into the criminal code—

Mr. SPORKIN. Mr. Chairman, I have to make one statement if you will permit me. Being a candidate for Congress I think it is my duty

to answer a scurrilous attack which was directed to your attorney by one of my opponents prior to the primary election which was immediately on May 18.

I feel sure that you have received such a letter. I am sure, because I have a copy of the letter, directed to the President of the United States, to Senator Byrd, to Senator Williams, to Senator—well, seven more Senators, Mr. Brownell, the Attorney General, and I think he wrote one to the Chief Justice, because he thought I might get there. Now, let me say this to you: I did not want to answer Mr. Barrett, my opponent, until after the election, because the papers were spread all over the front that I made a couple of hundred thousands dollars with a \$500 investment, and at all times I was exposed with more than \$500,000. I didn't have any guaranties from the Government, that I was going to get that \$500,000 back.

Fortunately, for myself, I was enterprising enough to protect my investment, by buying properly, buying bulldozers, making sure that I had the excavation materials, road builders, and in order to clear the road and make sure I could finish the project within the proper time. I want the press to give me as much of a break, and that is the pleasure that I have here today, to come before your committee and be able to express myself. I do not feel I should stand here condemned because I made a profit out of a real honest effort, didn't make any false statements, filed a general, honorable income tax, paid that income tax, and then I was requested by the Government to bid on a Wherry housing, near one of the projects, which he had completed; when I refused to build they got somebody else to put a prefabricated house up there and emptied our building by making the tenants move out of our Clove Hill and move into their buildings.

What am I supposed to do, the new purchaser of Clover Hill is now exposed with four more hundred houses under the Wherry Act, adjoining those 300 that emptied our place. What am I supposed to do? Sit back here and like it? Well, I ran for Congress. I am hoping to be down here. I am hoping to be able to express with my experience that I have obtained in the past years, that I too will be able to be helpful in clearing up the situation that is very much needed in correcting some of the evils.

The CHAIRMAN. You ought to with your experience. You ought to be able to help us clean it up.

Mr. SPORKIN. Senator, therefore, I would like a statement from this committee, if it could be had, that I am not as bad as I was painted to be, with squawking windfall—

The CHAIRMAN. We will let the statement speak for itself.

Mr. SPORKIN. Thank you so much for the opportunity. Perhaps I have taken a little more than I should have but it had to be a political speech in view of the fact I was attacked politically.

The CHAIRMAN. This committee will investigate any and everybody that they find, that they feel they ought to look into regardless of politics.

Mr. J. DUBOIS. Do you have any objection if I give this to the press?

The CHAIRMAN. I have no objection. You can do whatever you care to do. It has been made a part of the record. Did you give a copy for the record?

Mr. J. DuBois. Yes. I will furnish them one.

The CHAIRMAN. We have no objections.

We are making it a part of the record because I think it is a condemnation of the administration under which these things occurred.

Is Mr. Trice here?

Mr. H. DuBois. Are we finished, Senator?

The CHAIRMAN. Yes.

What about Mr. Trice?

Mr. Trice was scheduled to be here this morning from Richmond. He hasn't arrived, so we will just put Mr. Trice on later, a couple of weeks from now or when we can get to him in some of the other hearings we will hold later.

We are not going to have a hearing at 2 o'clock to hear Mr. Trice when we are not certain he will be here.

We are going to recess these hearings until a week from Tuesday, unless something unforeseen comes up. What is the date?

Mr. SIMON. It is August 3.

The CHAIRMAN. We are going to recess until 10 o'clock, Tuesday morning, August 3. There will be no public hearings until then unless something unforeseen arises. We may have some public hearings between now and then but our best judgment is the next public hearing will be here a week from next Tuesday. As you gentlemen know, we will hold hearings for 1 full week the last week of August, the week of August 24 in New York. We will have 1 full week of hearings in California starting the last day of August, and the first 5 days of September. We will give you the names of our witnesses on August 3 about the middle of next week.

In the meantime we will recess, unless somebody knows some good reason why we shouldn't.

(Whereupon, at 12:30 p. m., Friday, July 23, 1954, the committee recessed to reconvene at 10 a. m., Tuesday morning, August 3, 1954.)

FHA INVESTIGATION

TUESDAY, AUGUST 3, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, at 10:05 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Beall, Sparkman, and Frear.

Also present: Senator Welker.

Also present: William Simon, general counsel, FHA investigation.

The CHAIRMAN. The committee will please come to order.

Our first witness will be Mr. Richard Vidaver of Chicago. Will you please come forward, Mr. Vidaver? Will you be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

TESTIMONY OF RICHARD VIDAVER, CHICAGO, ILL.

Mr. VIDAVER. I do.

The CHAIRMAN. Will you please be seated. You have no attorney with you this morning?

Mr. VIDAVER. Not this morning, no, sir.

The CHAIRMAN. Will you please give the reporter your full name and address?

Mr. VIDAVER. Richard Falk Vidaver.

The CHAIRMAN. Will you please talk into the microphone?

Mr. VIDAVER. 428-B Wellington Street.

Mr. SIMON. 428 what?

Mr. VIDAVER. 428-B 428 dash B, Wellington Street, Chicago, Ill.

Mr. SIMON. What is the street?

Mr. VIDAVER. Wellington.

Mr. SIMON. 428-B Wellington Street, Chicago?

Mr. VIDAVER. Yes.

The CHAIRMAN. That is your home address?

Mr. VIDAVER. Yes.

The CHAIRMAN. What is your business address?

Mr. VIDAVER. I decline to answer on the ground that under the fifth amendment of the Constitution, I am not required to testify against myself and give incriminating evidence against myself.

The CHAIRMAN. Are you associated with or do you have any interest in Unreco Corp., U-n-r-e-c-o, 1019 South Wabash Avenue, Chicago, Ill.?

Mr. VIDAVER. I decline to answer as above stated, sir.

The CHAIRMAN. Are you an officer of or owner of any business or concern engaged in the home improvement business?

Mr. VIDAVER. I decline to answer as above stated.

The CHAIRMAN. Were you associated with, in any capacity, Cane Enterprises & Associates, Inc., of Chicago, Ill.?

Mr. VIDAVER. I decline to answer as above stated.

The CHAIRMAN. Have you ever engaged in the selling and application of materials for home improvements, such as aluminum siding, roofing and paints, which have been financed under title I of the National Housing Act?

Mr. VIDAVER. I decline to answer as above stated.

The CHAIRMAN. Are you acquainted with or do you have any business associations with Harry Cane, Mickey Cohen, or Harry Nassan?

Mr. VIDAVER. I decline to answer as above stated.

The CHAIRMAN. Are you vice president of a concern known as Certified Construction Co., 122 North Halsted Street, Chicago, Ill., which engaged in the title I home improvement business during the year 1950?

Mr. VIDAVER. I decline to answer as above stated.

The CHAIRMAN. Is your wife known as Ann Bass or Ann Brazze?

Mr. VIDAVER. I decline to answer as above stated.

The CHAIRMAN. Have you ever filled out or prepared an FHA title I loan application in connection with the sale of home improvements?

Mr. VIDAVER. I decline to answer as above stated.

The CHAIRMAN. Are you presently employed by Myles Home Improvements Co. of Chicago, Ill.?

Mr. VIDAVER. I decline to answer as above stated.

The CHAIRMAN. Were your profits on sales of home improvements 50 percent to 100 percent of the cost of the materials and labor?

Mr. VIDAVER. I decline to answer as above stated.

The CHAIRMAN. Were you arrested in Houston, Tex., in January of 1951, while acting as manager of a crew of salesmen engaged in selling home improvements which were to be paid by notes insured by FHA?

Mr. VIDAVER. I decline to answer as above stated.

The CHAIRMAN. Do you know where we can locate Harry Cane?

Mr. VIDAVER. I decline to answer as above stated.

The CHAIRMAN. Well, Mr. Vidaver, we will recess or continue your hearing until 10 a. m. on September 15, at which time we ask you to appear in the Federal Building, Chicago, under the same subpoena that you are under at the moment.

Mr. VIDAVER. I didn't get that; 10 a. m.?

The CHAIRMAN. 10 a. m., on September 15 in the Federal Building, Chicago, Ill., under the same subpoena you are under at the moment.

We will temporarily excuse you, and recess your hearing until 10 a. m., September 15, in the Federal Building, Chicago, Ill.

Mr. VIDAVER. Yes, sir.

The CHAIRMAN. Our next witness will be Mr. Morris Cafritz of Washington, D. C.

Will you be sworn, please, Mr. Cafritz. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

TESTIMONY OF MORRIS CAFRITZ, PARKLANDS MANOR, WASHINGTON, D. C., ETC., ACCOMPANIED BY JOHN J. WILSON, COUNSEL

Mr. CAFRITZ. I do, sir.

The CHAIRMAN. Thank you.

If you will give your full name and address to the reporter? The gentleman with you I assume is your attorney.

Mr. CAFRITZ. Yes, sir. Morris Cafritz, 14th and K NW.

Mr. SIMON. Counsel, will you give the reporter your name?

Mr. WILSON. My name is John J. Wilson of the Washington law firm of Whiteford, Hart, Carmody & Wilson, 815 15th Street NW.

The CHAIRMAN. You may proceed, counsel.

Mr. SIMON. Mr. Cafritz, are you the owner of a tract of land in either the southeast or southwest part of Washington, on which the Parklands Manor building was constructed?

Mr. CAFRITZ. Yes, sir.

Mr. SIMON. When did you acquire that land?

Mr. CAFRITZ. I think it was 1941.

Mr. SIMON. How many acres were in the tract?

Mr. CAFRITZ. About 100.

Mr. SIMON. What did you pay for the 100 acres?

Mr. CAFRITZ. I think it was about \$69,000.

Mr. SIMON. Did you subsequently transfer any part or all of that land to a corporation known as Parklands, Inc.?

Mr. CAFRITZ. I transferred the entire tract of land to Parklands, Inc., in 1946.

Mr. SIMON. At the time of the transfer, who was the stockholder in the land—I'm sorry, who were the stockholders in Parklands, Inc.?

Mr. CAFRITZ. My three sons.

Mr. SIMON. Didn't you transfer the land before you made the gift of stock?

Mr. CAFRITZ. Transferred the land to Parklands, Inc.?

Mr. SIMON. Yes. And then after the Parklands, Inc., company became the owner of the land, then you transferred the stock in the corporation to your three sons?

Mr. CAFRITZ. That is right, sir. To a trust.

Mr. SIMON. You transferred the stock in Parklands, Inc., one-third to trustees holding the land in trust, holding the stock in trust, to your son Edward, one-third—

Mr. CAFRITZ. No, sir; that is not the correct name.

Mr. SIMON. I'm sorry. One-third to each of your sons, Calvin, Carter, and Conrad?

Mr. CAFRITZ. Correct, sir.

Mr. SIMON. What was the date of that transfer?

Mr. CAFRITZ. I think it was 1946.

Mr. SIMON. Was it October 10, 1946?

Mr. CAFRITZ. It could have been, sir.

Mr. SIMON. And on that date did Parklands, Inc., have any assets other than this 100 acres of land?

Mr. CAFRITZ. No; it did not.

Mr. SIMON. Did it have any liabilities on that date?

Mr. CAFRITZ. No; it did not.

Mr. SIMON. So that the value of the stock in the corporation was in effect the value of the land, is that right?

Mr. CAFRITZ. That is correct, sir.

Mr. SIMON. What was the fair market value of that land on October 10, 1946?

Mr. CAFRITZ. I guess that land probably at that time was worth between \$3,000 and \$4,000 an acre.

Mr. SIMON. You mean that total tract was worth between \$300,000 and \$400,000?

Mr. CAFRITZ. Yes.

Mr. SIMON. The tract you say was worth between \$300,000 and \$400,000?

Mr. CAFRITZ. I presume, sir.

The CHAIRMAN. How many acres were there, 100?

Mr. CAFRITZ. 100, yes.

The CHAIRMAN. How much was it worth an acre?

Mr. CAFRITZ. I guess about \$3,000.

Mr. SIMON. Mr. Cafritz, I show you what purports to be a photostatic copy of the gift tax return purportedly filed by you for the calendar year 1946, and ask you whether in that return you valued this land at \$69,000.

Mr. CAFRITZ. Yes; that was for gift purposes, sir.

That is correct.

Mr. SIMON. In that gift tax return, did you represent to the Treasury Department that the fair market value of the land was \$69,000?

Mr. CAFRITZ. I didn't represent it. That was the cost of the land. We didn't want to be involved in any gift tax—I mean any large gift tax.

Mr. SIMON. The question, Mr. Cafritz, is whether in that gift tax return you represented to the Treasury Department that on October 10, 1946, the fair market value of the land was \$69,000.

Mr. CAFRITZ. I represented to them that that was the cost of the land. We didn't go into the value of the land at that time.

Mr. SIMON. Does the gift tax return say the figure you gave was the cost of the land, or does it say that it was the value on the date of the gift?

Mr. CAFRITZ. I didn't look into that factor at that time.

Mr. SIMON. Will you look at it now and tell me whether the gift tax return states that \$69,000 is the cost of the land or whether it says that \$69,000 is the value on October 10, 1946?

Mr. CAFRITZ. We gave stock, not the land—

Mr. SIMON. But you just testified that the only asset of the corporation was the land and it had no liabilities, isn't that right?

Mr. CAFRITZ. That is correct.

Mr. SIMON. Now, does the gift tax return say that the value of the gift is the cost of the land, or does it say that it is the fair market value on October 10, 1946?

Mr. CAFRITZ. We didn't give the land; we gave the stock in the corporation.

Mr. SIMON. Does it give the fair market value of the stock on October 10, 1946?

Mr. CAFRITZ. I didn't think that was ascertained at that time.

Mr. SIMON. Does the gift tax return—

Mr. CAFRITZ. Wait a moment. Yes; it does give some values here. \$23,000 for each share of stock, I think.

Mr. SIMON. For each child's interest?

Mr. CAFRITZ. That is right.

Mr. SIMON. That would be \$69,000 for the stock in Parklands, Inc., is that right?

Mr. CAFRITZ. That is correct, sir.

Mr. SIMON. In that tax return, did you value the stock of Parklands, Inc., on October 10, 1946, at \$69,000?

Mr. CAFRITZ. I think we did.

Mr. SIMON. And on that date Parklands, Inc., owned all of this 100 acres of land, is that right?

Mr. CAFRITZ. That is correct.

Mr. SIMON. And it had no liabilities?

Mr. CAFRITZ. No liabilities.

Mr. SIMON. Can you give us any explanation of why the value of the stock in Parklands, Inc., would be any different from the value of the land?

Mr. CAFRITZ. Well, I can't give you any explanation, but that is what it cost and that is what we put it in for.

Mr. SIMON. But the value of the stock in Parklands, Inc., on October 10, 1946, was not any different from the value of the land, was it?

Mr. CAFRITZ. Well, you could probably have sold the land at that time——

Mr. SIMON. That isn't my question. The question is whether the value of the stock on October 10, 1946, was any different from the value of the land.

Mr. CAFRITZ. Oh, I don't know. I don't know how you could arrive at the value of the stock.

Mr. SIMON. Well, did the corporation own anything other than the land?

Mr. CAFRITZ. No; that is what it owned.

The CHAIRMAN. And it did own all the land?

Mr. CAFRITZ. It owned all the land.

The CHAIRMAN. Therefore, I presume the normal conclusion would be that the worth of the stock would be the worth of the land, if all the corporation owned was the land.

Mr. CAFRITZ. That is right.

Mr. SIMON. Is that correct?

Mr. CAFRITZ. That is correct.

Mr. SIMON. Did you ever make any further gifts to Parklands, Inc.?

Mr. CAFRITZ. I don't think so.

Mr. SIMON. Other than loans which you may have made or companies you were affiliated with, did any lands ever come into Parklands, Inc.?

Mr. CAFRITZ. Not that I know of.

Mr. SIMON. The only asset from which Parklands, Inc., has established its present assets is the land which you put in the corporation in 1946, is that right?

Mr. CAFRITZ. That is correct, sir.

Mr. SIMON. What are the corporations in which Parklands, Inc., now owns stock?

Mr. CAFRITZ. Parklands, Inc., does not own any stock in any other corporation.

Mr. SIMON. Did it ever own the stock of Parklands Manor, Inc.?

Mr. CAFRITZ. Parklands Manor, Inc.?

Mr. SIMON. Yes.

Mr. CAFRITZ. No; I don't think so.

Mr. SIMON. Parklands, Inc., never owned the stock of Parklands Manor, Inc.?

Mr. CAFRITZ. I don't think so.

Mr. SIMON. Are you sure of that?

Mr. CAFRITZ. No; I am not sure of it.

Mr. SIMON. Did Parklands, Inc., ever own the stock of Parklands Terrace, Inc.?

Mr. CAFRITZ. I don't recall just how that was set up. Parklands Manor—Parklands, Inc., owned the land and may have——

Mr. SIMON. Who were the stockholders of Parklands Manor, Inc.?

Mr. CAFRITZ. The stockholders are the three boys.

Mr. SIMON. In their own names?

Mr. CAFRITZ. Yes, sir.

Mr. SIMON. The stock is issued to them?

Mr. CAFRITZ. It is in trust.

Mr. SIMON. Who owns the stock of Parklands Manor, Inc.?

Mr. CAFRITZ. I guess the trust owns it.

Mr. SIMON. The trust owns it?

Mr. CAFRITZ. Yes, sir.

Mr. SIMON. Did the trust ever have any assets other than the land or the stock of Parklands Manor, Inc., which you gave it in 1946?

Mr. CAFRITZ. I don't think so.

Mr. SIMON. What are the corporate stocks that the trust now owns?

Mr. CAFRITZ. Well, I guess it owns all these different corporations: Parklands Manor, Parklands Terrace, Parklands, Inc., Parklands No. 4, shopping center.

Mr. SIMON. Any others?

Mr. CAFRITZ. Parklands 5.

Mr. SIMON. Any others?

Mr. CAFRITZ. No others.

Mr. SIMON. What about a company called Homelands 2?

Mr. CAFRITZ. It has nothing to do with that, sir.

Mr. SIMON. Nothing to do with this?

Mr. CAFRITZ. No, sir.

Mr. SIMON. So that the trust which you created in 1946 out of this land now owns the stock of Parklands, Inc., Parklands Manor, Inc., Parklands Terrace, Inc., Parklands No. 4?

Mr. CAFRITZ. That is right.

Mr. SIMON. Parklands No. 5, and Parklands Shopping Center?

Mr. CAFRITZ. That is correct, sir.

Mr. SIMON. And no other funds were ever put into this trust, other than the land which you put in in 1946; is that right?

Mr. CAFRITZ. No other funds; no, sir. Only borrowed money that was loaned.

Mr. SIMON. Yes; you loaned money to these corporations.

Mr. CAFRITZ. That is right.

Mr. SIMON. Now, going to Parklands Manor, Inc., how much of this 100-acre tract was transferred to Parklands Manor, Inc.?

Mr. CAFRITZ. I would say between 18 and 20 acres.

Mr. SIMON. How was that transfer arranged?

Mr. CAFRITZ. I think the transfer was transfer for stock—yes, the stock was given for the land.

Mr. SIMON. That is, Parklands, Inc., transferred the land to Parklands Manor, Inc.—

Mr. CAFRITZ. For stock.

Mr. SIMON. For stock?

Mr. CAFRITZ. That is right.

Mr. SIMON. What did Parklands, Inc., then do with the stock?

Mr. CAFRITZ. I guess it still has it.

Mr. SIMON. That is what I thought. But a minute ago you said Parklands didn't.

Mr. CAFRITZ. I wasn't sure of that, but I guess.

Mr. SIMON. Parklands owns the stock?

Mr. CAFRITZ. Yes.

Mr. SIMON. Which it got for the land; is that right?

Mr. CAFRITZ. I wasn't sure whether the stock was in the trust or whether it was in Parklands, Inc.

Mr. SIMON. In connection with that transfer, you had the value of the stock on the books of Parklands Manor, didn't you—

Mr. CAFRITZ. What stock was that, sir?

Mr. SIMON. I'm sorry. The land. When you transferred the land, you had to give it a value on Parklands Manor's books, didn't you?

Mr. CAFRITZ. It was no-par value, I think.

Mr. SIMON. Don't your own books, or the books of Parklands Manor, Inc., show this land as having a value or a cost of \$35,281?

Mr. CAFRITZ. Yes; it probably could have.

Mr. SIMON. And that is the proportion of the original cost which you assigned to the land which went into this project; is that right?

Mr. CAFRITZ. That is correct.

Mr. SIMON. Mr. Cafritz, I read in the paper the other day the statement allegedly attributed to you, that after the project was about 100 percent completed and about 100 percent rented, the FHA gave mortgage insurance for a loan of about \$3.5 million is that correct?

Mr. CAFRITZ. We had a commitment for that mortgage long before the project was started.

Mr. SIMON. Yes. You started the project in 1951, didn't you?

Mr. CAFRITZ. That is correct.

Mr. SIMON. And when did you file the original commitment?

Mr. CAFRITZ. I think it was 1950.

Mr. SIMON. January 9, 1950?

Mr. CAFRITZ. It could have been.

Mr. SIMON. In your original commitment, did you value the land of Parklands Manor at \$390,000?

Mr. CAFRITZ. If that is what the records show, that is the value we put on it.

Mr. SIMON. I will be glad to show you the commitment and ask you if that is a fact.

You will find that on pages 2 and 3. On page 2 in the middle of the page, under schedule A, and on page 3 in the upper left-hand corner, under "Resources."

Mr. CAFRITZ. That is correct, sir.

Mr. SIMON. \$390,000?

Mr. CAFRITZ. Yes, sir.

Mr. SIMON. And that was for 18 or 20 acres?

Mr. CAFRITZ. Correct.

Mr. SIMON. Therefore, on that valuation, the entire tract would be worth \$2 million; is that right?

Mr. CAFRITZ. The valuation, but all of the land wasn't as valuable as the front part of the land that Parklands Manor was built on. Some of this land I think spills over into Maryland—valueless.

Mr. SIMON. Based upon a valuation of \$390,000 for about 18 acres, what would be the value of 100 acres?

Mr. CAFRITZ. Well, I don't think you can value the whole 100 acres at the same value that you put on the front land that is adjacent to transportation and streets and—

Mr. SIMON. How much of the land was of the value at the rate you ascribed in that application?

Mr. CAFRITZ. I guess just the front part of it, just about 18 or 20 acres.

Mr. SIMON. Any more of the land than is shown in that application of that value?

Mr. CAFRITZ. I don't think so.

Mr. SIMON. A short time after you filed that application, did you file an amended application, and increase the amount of land that was going into the project, and increase the number of apartments?

Mr. CAFRITZ. Yes, I think we did.

Mr. SIMON. When you did that, didn't you increase the value of the land from \$390,000 to \$422,000?

Mr. CAFRITZ. That is probably correct.

Mr. SIMON. That was on the basis that you were putting a little more land in?

Mr. CAFRITZ. That is right.

Mr. SIMON. Well now, how much more of the land would you have said was of the same value?

Mr. CAFRITZ. Well, the land that went into that project. Naturally, it was all of the same value. It was all one project.

Mr. SIMON. You had a mortgage commitment from FHA of how much?

Mr. CAFRITZ. \$3,563,000.

Mr. SIMON. Do you recall the date of the commitment?

Mr. CAFRITZ. No, I don't.

Mr. SIMON. The copy I have here is dated July 5, 1951; is that correct?

Mr. CAFRITZ. That is correct, sir.

Mr. SIMON. Had construction started at that time?

Mr. CAFRITZ. No; not in July. It didn't start until September, I think.

Mr. SIMON. Mr. Cafritz, what was the total cost of Parklands Manor, Inc., of the entire project, including the land, the buildings, the utilities, every other cost that it had in constructing this building.

Mr. CAFRITZ. Well, I think some of the costs are shown—

Mr. SIMON. I want, first of all, the costs that were paid to anybody or anything at any time in connection with the construction.

Mr. CAFRITZ. I think it was \$3,011,000-odd dollars.

Mr. SIMON. And that was \$552,000 less than the amount of the mortgage; is that right?

Mr. CAFRITZ. Up to that point it was, yes.

Mr. SIMON. When the building was finished, completely occupied, and all of the bills were paid that were ever going to be paid, Parklands Manor had \$552,000 cash left over, is that right?

Mr. CAFRITZ. I couldn't say it had just that much left over. Maybe a little less.

Mr. SIMON. Would you say approximately \$550,000?

Mr. CAFRITZ. Well, maybe so.

Mr. SIMON. Well, is that true or not? I just want the facts. You told me the worth was \$3,563,000 and you told us that the costs were \$3,011,000, and my subtraction is that the difference is \$552,000.

Mr. CAFRITZ. Well, I can't recall that that was the amount that was left over.

Mr. SIMON. What was the amount that was left over?

Mr. CAFRITZ. I don't know.

Mr. SIMON. Wouldn't it have to be the difference between what you took in and what you paid out?

Mr. CAFRITZ. Well, it probably could have been at that time. Other money had to be paid out. For instance, we were figuring then that we had to install a storm sewer, which amounted to considerable money. I don't think all the landscaping was completed, and so on.

Mr. SIMON. You were the one that said that the total was \$3,011,000. If that is wrong, I would be happy to have you amend it. But what was the total cost?

Mr. CAFRITZ. I guess probably that is what it was.

Mr. SIMON. Subsequently that \$552,000 was loaned out to other corporations in this group we discussed earlier, to build other projects; is that right?

Mr. CAFRITZ. That is correct, sir.

Mr. SIMON. Is one of the reasons why you were able to build this building for better than \$500,000 less than the mortgage because you and your other companies performed services for this project that you didn't make any charge for?

Mr. CAFRITZ. Well, I didn't charge for any of my services to the project. I did a lot of work on it.

Mr. SIMON. Let me ask you this: Who was the mortgagee?

Mr. CAFRITZ. Cafritz Mortgage Co.

Mr. SIMON. The Cafritz Mortgage Co. disbursed the loan proceeds; is that right?

Mr. CAFRITZ. That is correct.

Mr. SIMON. When you disbursed the last \$552,000 of the loan proceeds, you knew that all of the other bills had been paid?

Mr. CAFRITZ. It wasn't disbursed that way, Mr. Simon. It was disbursed all in one sum.

Mr. SIMON. It was disbursed by the Cafritz Mortgage Co. in one sum?

Mr. CAFRITZ. In one sum. The \$3,562,000 was disbursed at one time.

Mr. SIMON. Who was it disbursed—

Mr. CAFRITZ. It was disbursed by the title company, the Dry Dock Savings Co. in New York.

Mr. SIMON. Who did they give the money to?

Mr. CAFRITZ. I think it was put up by the title company.

Mr. SIMON. What title company?

Mr. CAFRITZ. District Title Co.

Mr. SIMON. Did the money ever go through the Cafritz Mortgage Co.?

Mr. CAFRITZ. I don't think so.

Mr. SIMON. You were the mortgagee but the money never went through your company; is that right?

Mr. CAFRITZ. That is right.

Mr. SIMON. Did you loan money out of one of your other companies to this project without interest?

Mr. CAFRITZ. No, we didn't. We charged a half percent interest.

Mr. SIMON. A half of 1 percent interest?

Mr. CAFRITZ. That is right.

Mr. SIMON. What would you consider to be the normal interest rate on such a loan?

Mr. CAFRITZ. I don't know. I loaned money to the Government for three-quarters of 1 percent. And the Housing Authority, I bought bonds, which was nothing but a loan, three-quarters of 1 percent.

Mr. SIMON. This newspaper article purports to quote you as saying—here is what it says, and this is quoting you, purportedly:

We used our own money during construction and therefore saved the interest charges, about 5 percent, that we would have paid if we had had the FHA-insured loan at that time.

Is that accurately quoting you?

Mr. CAFRITZ. That is accurately quoting me, yes, sir.

Mr. SIMON. Is it 5 percent of the interest charge?

Mr. CAFRITZ. I think if we went to a bank we would have to pay 4 or 5 percent.

Mr. SIMON. Because you loaned it from one of your other companies at a half of 1 percent, this project saved somewhere around 4 percent of \$3,000,000?

Mr. CAFRITZ. I think it saved considerable money. Some of the money that I loaned I didn't charge any interest. I loaned \$400,000 of my own money where I didn't charge any interest whatsoever.

Mr. SIMON. So that well over \$100,000 in interest was saved?

Mr. CAFRITZ. Yes, I think so. Yes, sir.

Mr. SIMON. Had your company which loaned this money at a half a percent interest charged the normal interest rate, the additional interest revenue would have been subject to corporate income taxes at at least 52 percent, isn't that right?

Mr. CAFRITZ. Not necessarily. That money was lying there idle. They had no use for it.

Mr. SIMON. Whether they had any use for it or not, you still would have had to pay income taxes on the interest you received, wouldn't you?

Mr. CAFRITZ. No, it wasn't earning interest. It gained interest by loaning it to that company, because otherwise we wouldn't have received any interest whatsoever.

Mr. SIMON. I'm afraid you misunderstood my question. Had you loaned it to the company at 5 percent, instead of a half of 1 percent, you would have had to pay corporate income taxes at a rate of at least 52 percent on the other 4½ percent of interest; isn't that right?

Mr. CAFRITZ. Well, if I had, but that is a supposition.

Mr. SIMON. I said if you had done it, you would have had to pay——

Mr. CAFRITZ. If I loaned it to them at 10 percent, I would have had that much more.

Mr. SIMON. Yes, sir.

Mr. CAFRITZ. Yes, sir. That is an absurd statement.

Mr. SIMON. It is not absurd that the giving of interest at——

Mr. CAFRITZ. Not giving. You loan it to them at an interest rate.

Mr. SIMON. Didn't you give them an interest rate of a half——

Mr. CAFRITZ. You might say the money I loaned to the Housing Authority at three-quarters of 1 percent, I could have loaned out at 5 percent and saved a great deal more money on it.

Mr. SIMON. But you make the point, Mr. Cafritz, that the interest charge would have normally been 5 percent.

Mr. CAFRITZ. If we had borrowed it from the bank, it would probably have been that; yes.

Mr. SIMON. And had your company loaned it to someone else, it would have been 5 percent?

Mr. CAFRITZ. That is right.

Mr. SIMON. The fact is that had you received the other 4½ percent, it would have been subject to corporate income taxes, isn't that right?

Mr. CAFRITZ. If we had received it, but this way we received interest that we wouldn't have received otherwise, by loaning it at half a percent.

Mr. SIMON. Did your construction company furnish equipment to this job that you made no charge for?

Mr. CAFRITZ. Most of the equipment that was used—I would say 99 percent of the equipment that was used on that job was rented equipment. I think at that time that Banks & Lee made the estimate, they had about \$50,000 in there for equipment. The bill run up for rental of equipment was over \$60,000.

Mr. SIMON. Mr. Cafritz, on June 11, 1954, did you testify in executive session before this committee?

Mr. CAFRITZ. Yes, sir.

Mr. SIMON. Were you asked the questions, and did you make these answers—and I am reading from page 13 of the transcript, Mr. Wilson:

Mr. CAFRITZ. Well, we gave out the contract. I gave out some of the contracts and they——

meaning Banks & Lee——

gave out some of the contracts. It was thought we would handle it together. I did a lot of work on the job, I did some of the excavating and some of my own equipment was used, without any charge. We bought a lot of the things we used in the buildings.

Mr. SIMON. Do the books of the corporation reflect the full cost of construction of this building?

Mr. CAFRITZ. Yes, sir.

Mr. ATLAS. No; they don't.

Mr. CAFRITZ. Not the full cost, no. I meant the cost we actually paid out.

Mr. SIMON. They do reflect all the costs that were paid out?

Mr. CAFRITZ. That is right.

Mr. ATLAS. That is not quite true, either, Mr. Cafritz. Let me correct this. Perhaps we should go into how we operate. As you know, Mr. Cafritz has widespread activities here. Now, what we bill out and what we get into our costs are primarily direct out-of-pocket costs. For example, there are other costs which are billed out. For example, we have equipment, heavy, medium trucks, et cetera. We do not charge for the rent of our own equipment on these projects.

Then I asked :

If I may inquire there, if you were to build a building for me, would you give me all your heavy equipment without charge?

Mr. ATLAS. I would not, but Mr. Cafritz is dealing here, for his own interests, or for beneficial interests, and he simply didn't do it.

Mr. SIMON. What I am trying to find out is whether the fact is that the no-charge was made for the use of heavy equipment only because the sons were the beneficiaries.

Mr. ATLAS. Let me qualify something else. Mr. Cafritz does not build for outside interests.

Then, I am skipping over to the next page, on page 15 :

Mr. SIMON. I am inquiring whether the reason that equipment was loaned free of charge to this building project is solely the fact that his sons were the owners of the building.

Mr. ATLAS. I can't answer whether that is a fact or not.

Mr. SIMON. That is what I would like him to tell me.

Mr. CAFRITZ. It was the fact.

Were those questions asked and those answers given, Mr. Cafritz?

Mr. CAFRITZ. Those were the questions asked and those were the answers given, but let me clarify that: I have several operations going at the same time. It is almost impossible for me to remember 3 years later just what transpired on the job that was under construction 3 years ago.

At that time that Parklands Manor was being built, Banks & Lee was the contractor. They rented all the equipment. Here is a statement from Banks & Lee that will show that.

Mr. SIMON. Is that under oath?

Mr. CAFRITZ. Yes; that is under oath.

Mr. SIMON. Does that statement—

Mr. CAFRITZ. No, no. That isn't under oath, but I am sure they can give that under oath.

Mr. SIMON. Let me read you what I have under oath from Banks & Lee.

Mr. CAFRITZ. Well, Mr. Banks cannot remember things that happened on the job. He was only out there about once or twice while the job was in progress.

Mr. SIMON. Let me read a couple of pages from Mr. Banks' testimony under oath before this committee:

Senator CAPEHART. As far as the actual construction is concerned, he—
meaning you—

didn't do much, did he?

The WITNESS. He furnished heavy equipment. There was a lot of excavation on the job.

Senator CAPEHART. He did that?

The WITNESS. He did a great deal of excavation. He furnished several pieces of heavy equipment. Also a shovel.

Then, skipping a page :

Mr. SIMON. What did he do for the construction of the building besides loaning you this heavy equipment and trucks?

Answer. He had a supervisor of his own on the job.

Question. All the time?

Answer. Right through the job.

Question. What else?

Answer. He furnished the plans and of course specifications, by his architect.

Question. What else?

Answer. He took care of the engineering.

Question. What do you mean by "took care of the engineering"?

Answer. Well, his engineers took care of all the engineering on the plans and so forth, in connection with the plans. He took care of all that. So it was ready to start when I went out there.

He was asked :

Was there anything else he did for the construction, that you can recall?

Answer. He had done considerable grading before we started the job. That was before I was connected with him.

Question. Anything else?

Answer. I don't recall anything else at the moment.

Is that testimony true?

Mr. CAFRITZ. No; it isn't. I never had a supervisor on the job at any time. Every man that was on the job was paid through the payroll of Banks & Lee. We did at one time—I think we had an old bulldozer, a 1947 model, to push some trucks around. Toward the last, when this estimate was running high, I sent in a couple heavy diesel equipment, but they were there about a day and a half.

The salary of those operators was paid through the job.

Mr. SIMON. Then your testimony here today is that Mr. Banks' testimony in executive session was wrong, and that your testimony and Mr. Atlas' testimony in executive session is wrong, is that right?

Mr. CAFRITZ. They were mistaken, that's all. It is pretty hard to remember, as I said before, something that happened 3 years ago.

Mr. SIMON. And you say Mr. Banks is also mistaken?

Mr. CAFRITZ. Well, he has this statement right here, that was made by his office. It amounts to \$61,000 spent for equipment, for rental of equipment.

Mr. SIMON. I notice the letter you are showing us is not signed by Mr. Banks himself.

Mr. CAFRITZ. It was signed by his office. I think you can verify that, Mr. Simon, through Mr. Banks' office. Maybe you can get him to swear to it. I am sure he will.

Mr. SIMON. We brought him in here and put him under oath, Mr. Cafritz. Would you say his sworn testimony is wrong?

Mr. CAFRITZ. I can't remember anything that happened 3 years ago. You have to go back to the records. I can't tell you everything that happened on different jobs 3 years later. It is impossible.

Mr. SIMON. What are the current assets of Parklands Manor?

Mr. CAFRITZ. Parklands Manor owns 49 buildings.

Mr. SIMON. I mean in dollars. The dollar value of assets in Parklands Manor.

Mr. CAFRITZ. Parklands Manor, probably including the rentals and everything else since it has been going, has in excess of \$600,000 in assets.

Mr. SIMON. Don't your books show about \$3,700,000?

Mr. CAFRITZ. Well, that is close enough.

Mr. SIMON. Is that about right, \$3,700,000?

Mr. CAFRITZ. About that; if the books show that it must be right.

Mr. SIMON. I am asking you.

Mr. CAFRITZ. I don't know. I didn't look at the books.

Mr. SIMON. Well, I have a balance sheet here that is dated December 31, 1953.

Mr. CAFRITZ. Well, that is correct, if that is what the balances state. That came off the books. I very seldom go to the books.

Mr. SIMON. It shows assets on December 31, 1953, of \$3,698,598.

Mr. CAFRITZ. That is correct, probably. It is probably worth more than that right now.

Mr. SIMON. Worth more than that right now?

Mr. CAFRITZ. Yes, sir.

Mr. SIMON. It has a mortgage on it, is that right?

Mr. CAFRITZ. That is right.

Mr. SIMON. Is that mortgage being amortized under rental income?

Mr. CAFRITZ. Yes.

Mr. SIMON. And unless the building suffers adverse conditions, the mortgage will be fully paid at its maturity out of rental income?

Mr. CAFRITZ. I would like to pay it off right now. If I was given permission to pay the whole mortgage off, I would gladly do it.

Mr. SIMON. I can assure you you can do that today.

Mr. CAFRITZ. Without penalty?

Mr. SIMON. You may have to pay the premiums.

Mr. CAFRITZ. If I could pay it, I would like to pay it off.

Mr. SIMON. What are the assets today of Parklands Terrace, Inc.?

Mr. CAFRITZ. Parklands Terrace, Inc., has 20 buildings.

Mr. SIMON. What are the dollar assets, as shown by the books?

Mr. CAFRITZ. I don't know. I didn't go to the books, sir. If you have the statement, I can probably verify it.

Mr. SIMON. I have a statement here, dated November 30, 1953, which you furnished to us, which shows \$125,000. Is that right?

Mr. CAFRITZ. That is correct.

Mr. SIMON. And there again, there is a mortgage which is being paid for out of rental income, is that right?

Mr. CAFRITZ. That is right. It is not an FHA mortgage.

Mr. SIMON. I understand.

Mr. CAFRITZ. It is a conventional mortgage.

Mr. SIMON. I understand. But the so-called front money for this project, or starting money, whatever you want to call it, was loaned out of the moneys in Parklands Manor left over out of the mortgage.

Mr. CAFRITZ. I don't think that is right; no, sir.

Mr. SIMON. Isn't that right?

Mr. CAFRITZ. No; it isn't right.

Mr. SIMON. Where did it get the so-called front money?

Mr. CAFRITZ. Affiliated companies loaned Parklands almost a million dollars before they used any money out of Parklands Manor.

Mr. SIMON. They did use money out of Parklands Manor?

Mr. CAFRITZ. They did; yes. But toward the last, when the affiliated companies loaned each other money, they borrowed money from Parklands Manor. But they didn't use that money in the beginning.

Mr. SIMON. Was that a half percent interest, too?

Mr. CAFRITZ. Yes.

Mr. SIMON. Parklands Terrace is built on this same 100-acre tract of land you gave your sons?

Mr. CAFRITZ. That is correct.

Mr. SIMON. What are the book value assets of Parklands Shopping Center?

Mr. CAFRITZ. Do you have the figures?

Mr. SIMON. No, sir; I don't, although I wrote you a letter saying we would ask you about those this morning.

Mr. CAFRITZ. I didn't know you meant Parklands——

Mr. WILSON. Which letter is that, Mr. Simon?

Mr. SIMON. The letter you called about yesterday.

Mr. WILSON. That does not call for that information.

Mr. SIMON. The second paragraph of this letter says:

On perusing the balance sheet you previously sent me, I find there are other corporations in which Parklands Manor has an interest, in which I had not been previously advised. I would like to ask you questions about these other corporations on August 3, and would appreciate your being prepared with respect to those questions.

Mr. WILSON. And I called your office yesterday to ask you to explain that item, and I couldn't get you. I talked to your assistant, Mr. Hogue, and I said that we had no information that Parklands Manor had an interest in other corporations, except money which had been lent, and that if you were seeking to determine whether Parklands Manor had stocks in those corporations, it did not.

I was told by Mr. Hogue that he did not know exactly what you meant, but that the balance sheets before him did not disclose, just as I had said, that Parklands Manor had any stock interest in the other corporations.

He said that he thought you would be interested in learning who were the stock owners of the other corporations, and that that was in effect what you desired in this letter. And Mr. Cafritz is prepared to give you that information.

Mr. SIMON. We already have the stock ownership as the trust, is that right?

Mr. CAFRITZ. That is right.

Mr. SIMON. What is your best recollection, Mr. Cafritz, as to the assets of the Parklands Shopping Center?

Mr. CAFRITZ. I presume that shopping center is probably worth today about \$300,000.

Mr. SIMON. Next we have Parklands No. 4.

Mr. CAFRITZ. That is Parklands, Inc.

Mr. SIMON. Parklands, Inc. No. 4?

Mr. CAFRITZ. Not No. 4. That is another operation. Parklands, Inc.

Mr. SIMON. That is right. But what is the value as shown by its books of its assets?

Mr. CAFRITZ. I don't know. Have you got the statement there?

Mr. SIMON. I have a statement here, showing as of December 31, 1953, \$923,000.

Mr. CAFRITZ. That is about correct.

Mr. SIMON. Now, No. 4. Is that Parklands Manor No. 4?

Mr. CAFRITZ. No, that is Parklands No. 4.

Mr. SIMON. What is the value of its assets?

Mr. CAFRITZ. Do you have the statement there?

Mr. SIMON. No, sir, I don't.

Mr. CAFRITZ. Well, I think that is worth a little more than Parklands, Inc. It has an extra building in it. It is probably worth, oh, I would say a little over a million dollars.

Mr. SIMON. What do you consider a little?

Mr. CAFRITZ. Well, it could be worth \$1,050,000 or something like that.

Mr. SIMON. Now, No. 5.

Mr. CAFRITZ. No. 5 is a development that was just started. It was only started I think about the middle of June.

Mr. SIMON. In each of these cases, Mr. Cafritz, is the mortgage paid for out of rental income?

Mr. CAFRITZ. Not in each one of those—No. 5 hasn't started.

Mr. SIMON. Excluding No. 5, which hasn't been built?

Mr. CAFRITZ. Yes.

Mr. SIMON. The mortgage is being paid off out of rental income?

Mr. CAFRITZ. That is correct.

Mr. SIMON. And in each of them, is the land a part of this 100-acre tract?

Mr. CAFRITZ. Yes, sir.

Mr. SIMON. And beyond the gift of the 100-acre tract, and excluding loans that you or your affiliated companies have made, did any other assets go into any of these five projects?

Mr. CAFRITZ. No other assets, no, sir.

Mr. SIMON. No other assets?

Mr. CAFRITZ. No other assets.

Mr. SIMON. Therefore, after the mortgages have been paid off, you hope out of rental income your 3 sons will have assets now valued at \$7,200,000?

Mr. CAFRITZ. I don't know whether you can put that value on them right now.

Mr. SIMON. That is what you show them at on the books.

Mr. CAFRITZ. You can't tell what those properties will be worth 20 years from now, or 25.

Mr. SIMON. That isn't what I said. I said they would have properties now valued at \$7,200,000.

Mr. CAFRITZ. You have to deduct the mortgages from them. Each one has a mortgage on it.

Mr. SIMON. What I said, Mr. Cafritz—

Mr. CAFRITZ. Yes, all right.

Mr. SIMON. When the mortgages have been paid off, out of rental income, they will own properties now valued at \$7,200,000, and your only contribution to that was the gift of the land, is that true?

Mr. CAFRITZ. That is a hypothetical statement.

Mr. SIMON. Is it true?

Mr. CAFRITZ. When the mortgages will be paid off, the property will be now worth—you can't value properties when the mortgage is paid off, because they may not be worth 50 percent to the dollar what they are today.

Mr. SIMON. I appreciate that, and at that time they might be worth more or less.

Mr. CAFRITZ. Right.

Mr. SIMON. But isn't it true that after the mortgages are paid off out of rental income, your sons will own properties now valued at \$7,200,000, from which your only contribution was the gift of the land?

Mr. CAFRITZ. That is correct, probably.

Mr. SIMON. Now, if a man—

Mr. CAFRITZ. Do you want this for a newspaper statement? Is that why you were trying to build it up, Mr. Simon?

Mr. SIMON. No, sir. If a man had as his source of income earnings on which he has to pay normal income taxes, and then has to pay a gift tax on the gifts that he gives to his sons, and he tried in one lifetime to give \$7 million worth of assets to his sons, he would have to earn at least \$20 million to do that, wouldn't he?

Mr. CAFRITZ. Is that against the law to do that, Mr. Simon? I don't think so. I think everything we have ever done or I have ever done has been 100 percent within the law.

Mr. SIMON. Well, we don't have to decide that this morning.

Mr. CAFRITZ. All right. Good.

Mr. SIMON. But under the tax laws a man would have to earn at least \$20 million, paying normal income taxes and gift taxes, in order to give \$7 million in property to his sons, isn't that true?

Mr. CAFRITZ. I can't answer that question. I am not a mathematician.

Mr. SIMON. Going back to the application that you have in front of you, Mr. Cafritz, what was the basis for your valuing that land at \$400,000, which represented the value of \$400,000 in 1950, which represented 20 percent of the tract which, for gift-tax purposes, you value at \$69,000 in 1946?

Mr. CAFRITZ. In other words, every applicant, I think, for FHA loans—not every applicant, but the FHA officials permitted you to put in that land at 50 cents a foot, put a value on it of 50 cents a foot.

Mr. SIMON. What FHA official did that?

Mr. CAFRITZ. Well, those connected with this local office.

Mr. SIMON. Regardless of what the value of the land actually was?

Mr. CAFRITZ. Well, I don't know. Not regardless of it. I guess they probably knew something about values.

Mr. SIMON. Well, did you get the figure of 50 cents a foot from the FHA people before you put it in the application?

Mr. CAFRITZ. We understood that that was what they would allow you to put the land in at—it was well——

Mr. SIMON. You say "we understood that is what they allowed." Who do you mean by "we"? Who do you mean by "they"?

Mr. CAFRITZ. We, our office, and by they I mean the FHA officials.

Mr. SIMON. Who do you mean by the FHA officials?

Mr. CAFRITZ. I think Mr. Barringer was one of the men up there, and some of the others, who handled it. I don't know who handled those applications up there.

Mr. SIMON. Did Mr. Barringer tell you you could put this land in at a value of \$400,000?

Mr. CAFRITZ. I don't think I ever appeared before Mr. Barringer or any other officials. It was handled through my office.

Mr. SIMON. Is it your testimony that FHA told you you could put it in at \$400,000?

Mr. CAFRITZ. They permitted you. They didn't tell me; they permitted you to put the land in at 50 cents valuation.

Mr. SIMON. Was that based upon a discussion prior to the filing of the application?

Mr. CAFRITZ. Yes, I think so.

Mr. SIMON. Who was that discussion between?

Mr. CAFRITZ. Well, I think it was probably Mr. Atlas and some of the other men in my office.

Mr. SIMON. Is your only information that which somebody else told you?

Mr. CAFRITZ. Well, they wouldn't have accepted it if they didn't think that was the right figure on the land.

Mr. SIMON. What I am trying to find out is whether they are the ones who put the \$400,000 valuation on, and you merely adopted it, or whether you put it on and they merely adopted it.

Mr. CAFRITZ. I think it was a known fact that land of that caliber was valued at 50 cents a foot, and they would permit that value to go in.

Mr. SIMON. For how long had such a yardstick been in existence, of valuing land like that, at 50 cents a foot?

Mr. CAFRITZ. I think for quite a while. I think most of these garden-type apartments—some of them were built out in the sticks, on farm land. I think some of that valuation that didn't go in as farm-land went in as so much a foot.

The CHAIRMAN. Where is this project located?

Mr. CAFRITZ. This is located at Stanton Road and Alabama Avenue, Senator.

The CHAIRMAN. In Maryland?

Mr. CAFRITZ. No; in the District.

The CHAIRMAN. In the District?

Mr. CAFRITZ. Yes, sir.

The CHAIRMAN. What did this land cost you in 1941? In 1941 it cost you \$69,000?

Mr. CAFRITZ. In 1941; yes, sir.

The CHAIRMAN. And Parklands, Inc., only used about one-fifth?

Mr. CAFRITZ. One-fifth; yes, sir.

The CHAIRMAN. That would be about one-fifth—that would be about \$14,000, wouldn't it? And then the land that cost you \$14,000 in 1941, you turned in for \$422,000. But you say that was permitted by FHA?

Mr. CAFRITZ. Yes, sir.

The CHAIRMAN. They approved it?

Mr. CAFRITZ. Senator Capehart, it probably cost you a great deal less than what you sell it for.

The CHAIRMAN. But FHA approved it for \$422,000?

Mr. CAFRITZ. Yes; they approved it. Otherwise, they wouldn't have given us the commitment.

Mr. SIMON. Did the Internal Revenue people check the valuation of your land in the gift-tax return?

Mr. CAFRITZ. They raised the value considerably from our original cost.

Mr. SIMON. And did they ultimately become satisfied that \$69,000 was the value in 1946?

Mr. CAFRITZ. No; they weren't satisfied. I think they raised it to over \$200,000, or something like that.

Mr. SIMON. Oh, it was raised to \$200,000.

Mr. CAFRITZ. Over \$200,000. I think the value they put on it was around \$3,000 or \$3,500 an acre, or something like that.

Mr. SIMON. On what valuation basis did you pay the gift-tax return?

Mr. CAFRITZ. On the valuation basis that Internal Revenue was satisfied with.

Mr. SIMON. And what was that?

Mr. CAFRITZ. I think it was around \$3,000 an acre. I am not positive of that.

Mr. SIMON. Do you know what the total valuation for the 100 acres was?

Mr. CAFRITZ. I think we have it—I think I sent you a copy of the Internal Revenue sheet there.

Mr. SIMON. I believe all I have, Mr. Cafritz, is the sheet which you have in front of you, which you did send me.

Mr. CAFRITZ. I thought the copy that I sent you showed where the valuation had been raised considerably from its original cost.

Mr. SIMON. Do you know to what level they raised it?

Mr. CAFRITZ. Well, I don't, exactly. I don't think they valued all the land—I don't think they put the same value on all the land. I think some of it was valued at \$3,500 an acre, and some at \$3,000 an acre.

Mr. SIMON. What value did Internal Revenue put on the 100 acres?

Mr. CAFRITZ. I don't recall the exact figure, but it was several times the original cost.

Mr. SIMON. At any rate, you valued it at—you valued 20 acres at \$400,000?

Mr. CAFRITZ. Yes; I think so.

Mr. SIMON. Actually, \$422,000.

Mr. CAFRITZ. That is right.

Mr. SIMON. So it would be about \$21,000 an acre you put on it.

Mr. CAFRITZ. That is right.

Mr. SIMON. And Internal Revenue valued the highest, you say, at \$3,000 or \$3,500 an acre?

Mr. CAFRITZ. Yes.

The CHAIRMAN. Mr. Cafritz, I have a couple of questions.

I notice in this article of the Washington Daily News of Saturday, July 31, of Tom Kelly, in an interview apparently with you, you say there was no windfall, all profits on the project were legitimate. My question is: You have already testified here—and I think it is a fact—that the total mortgage proceeds were some \$500,000 more than all costs. Did you know before you started the project that you would be able to get more money for the mortgage than the total cost?

Mr. CAFRITZ. No, Senator; we did not. We had no idea we could even build it for anything like that. We were quite a while getting started on that project. As I said before, the officials of FHA encouraged me for quite a while, from 1950—

The CHAIRMAN. In other words, you didn't anticipate you were going to get \$500,000 more out of the proceeds of the mortgage than the total cost of construction, did you?

Mr. CAFRITZ. I didn't think we could even build it for \$6,000 a unit.

The CHAIRMAN. Therefore, then, when you did finish and did have \$500,000 more than the total of all costs, it was a windfall, was it not?

Mr. CAFRITZ. No, it wasn't a windfall, no, sir.

The CHAIRMAN. What was it?

Mr. CAFRITZ. Why, it was just good management. It wasn't a windfall. A windfall is something that you get for nothing. This money had to be paid back.

The CHAIRMAN. The definition of "windfall" I will read to you in a moment. It is an unexpected legacy or unexpected return, and you just testified that this was unexpected.

Mr. CAFRITZ. That is not a profit. That money has to be paid back, Senator.

The CHAIRMAN. But you say it was an unexpected amount of money, was it not? You have just testified when you started to build this project, you didn't expect to mortgage-out.

Mr. CAFRITZ. Well, yes. In other words, we were able due to the fact that we were able to get contracts—subcontractors came in that were eager—it was just at the time, Senator, when all these section 608 jobs were eliminated.

The CHAIRMAN. My point is that the definition of "windfall" is "an unexpected legacy or other gain."

Mr. CAFRITZ. That is no gain. That is no legacy, Senator. That money has to be paid back.

The CHAIRMAN. It was no gain?

Mr. CAFRITZ. No gain whatsoever. There was a mortgage on that property. That has to be paid back, and we hope to pay it back. So it wasn't any gain.

The CHAIRMAN. In other words, you are going to pay off the total amount of the mortgage out of the loan?

Mr. CAFRITZ. I would like to pay it off today. I would like to pay the whole mortgage off today. I would be glad to do it.

Senator, that Parklands Manor is a credit to the industry. It just shows what private industry can do in comparison with public building.

The CHAIRMAN. This is very interesting to me, because in your case, here, you received \$500,000 more on the proceeds of the mortgage than the total cost, but you kept that money in the corporation.

Mr. CAFRITZ. Right.

The CHAIRMAN. You did loan, of course, that money to other corporations that you own, and you used it—

Mr. CAFRITZ. Used just a slight amount of it, which was paid back.

The CHAIRMAN. You used it from time to time, but it is still there. You used it at least once.

Now you are testifying that it was not a profit.

Mr. CAFRITZ. No, sir; not a profit.

The CHAIRMAN. How do you account for the fact, then, that these gentlemen—many, many of our witnesses, in fact most of them—have taken it out as a profit and paid taxes on it?

Mr. CAFRITZ. Well, maybe they don't care what happens to those projects. I do. I have taken great interest in building that area there. I didn't stop just because we had FHA loans. We built almost twice as many buildings since we had the FHA loan, through not 90 percent loan but through 60 percent, and we are going to continue building.

The CHAIRMAN. In other words, you never considered this \$500,000 a profit?

Mr. CAFRITZ. No, sir; not for a moment. I had no idea of paying it out.

The CHAIRMAN. Do you think these other builders that have considered it as a profit and taken it out and put it in their pocket—

Mr. CAFRITZ. Some of those fellows were promoters. They only got into the game because they figured they could get some easy money. That was the idea.

The CHAIRMAN. Another statement you made to Mr. Kelly was that after the project was about 100 percent completed and 100 percent rented, "the FHA gave mortgage insurance for a loan of about \$3.5 million." What do you mean by that?

Mr. CAFRITZ. Well, I think that statement, he probably misprinted that. The idea was we had a commitment, you know, on the entire—

The CHAIRMAN. I was going to ask you, didn't you have a commitment from FHA to insure this mortgage for \$3.5 million?

Mr. CAFRITZ. Oh, yes.

The CHAIRMAN. Before you even started?

Mr. CAFRITZ. Yes.

The CHAIRMAN. Therefore, this statement was not factual?

Mr. CAFRITZ. Oh, no; it wasn't factual. No, sir. He misprinted or misunderstood me.

The CHAIRMAN. That was a misstatement?

Mr. CAFRITZ. Yes, sir.

The CHAIRMAN. And you think that Mr. Kelly simply misquoted you?

Mr. CAFRITZ. He probably misunderstood me.

The CHAIRMAN. Are there any other questions?

We thank you very much, Mr. Cafritz.

Mr. WILSON. Mr. Chairman, would you let us develop one or two things?

The CHAIRMAN. Yes, if you care to make a statement, we would be glad to hear you.

Mr. WILSON. I would like to ask Mr. Cafritz several questions to develop answers as—

The CHAIRMAN. I don't think we could permit you to do that. You may make a statement, as his attorney. Go ahead.

Mr. WILSON. I would like to say this: I think Mr. Cafritz is prepared to develop that land increases in value as a project is delineated, and as the plans are laid out it then becomes the basis for a living place.

The CHAIRMAN. A what?

Mr. WILSON. A living place. And thus land increases in value on top of that.

And I think he is prepared to say that this increase in the value of land is a perfectly natural progression in this situation. Moreover, I understand that he is prepared to tell you that the rents for Parklands Terrace, which were built without FHA insurance, are equal to and possibly in excess of the rents for this FHA project.

So it cannot be said that the occupants, these colored occupants of this very large, fine, colored housing development, are being mulcted in rents as a result of this FHA project.

Further, I think Mr. Cafritz is prepared to inform you that he could build, either through the FHA project or through his own resources, and with private financing, many, many times more cheaply than the Government can build public housing, and has built housing right across the street from his project.

The CHAIRMAN. I want to say this: The only reason Mr. Cafritz is here is that he is one of the concerns in the United States that re-

ceived more out of the proceeds of the mortgage than the total cost of of the project, whereas the law specifically stated that it was to be 90 percent of the appraised value and that the appraised value was to be as close as it was possible and feasible to the actual cost.

We are trying to find out in this investigation how those things happen, and we are trying to make certain that they never happen again.

That is the only reason that Mr. Cafritz is here, is that he had a project in which the proceeds of the mortgage, guaranteed by the Federal Government, was \$500,000 odd greater than the total cost of the project.

Mr. CAFRITZ. Senator, doesn't that show——

The CHAIRMAN. What it should have been, according to the law, it should have been 90 percent of the actual cost or as near to the actual cost as it was feasible or possible for an appraiser to arrive at.

I think one of the reasons why there was that discrepancy was the discrepancy in the price of the land. Mr. Cafritz puts the land in at \$422,000, land which cost him considerably less. And he just testified himself that he still owes that money to himself, and he said it is not a profit. Most of the witnesses we have had here considered it a profit, and Senators even got up on the floor of the Senate and talked about it being a profit. But under section 608 and all of these other projects that we are investigating, they continue to own them. You can't make a profit on something that you own yourself unless you sell it or dispose of it.

Mr. CAFRITZ. Senator, I want to say this, that this same project, Parklands Manor, if built by some other builder could have cost 20 percent more.

I want to make another statement, that I only hope, as a taxpayer, that all the projects that FHA insured would turn out as profitable as Parklands Manor. Parklands Manor is paying local real estate taxes, local taxes, Federal taxes, and it will always continue to pay those taxes.

The CHAIRMAN. Yes, I agree with you. But my point is that they can still do all those things, and FHA can see that these appraisers—they can see that it is based on cost, its 90 percent cost. And while your coverage here was \$500,000, we have had instances of course on projects where it has run up to several million. And in those cases they have taken the money out, declared dividends and considered it a profit, and put it in their own pocket.

Mr. CAFRITZ. You take these conventional loan companies——

The CHAIRMAN. You did not do that in this case.

Mr. SIMON. I have two more questions.

This money that you did have left over was loaned out at least once and some of it more than once to some of these affiliated corporations, either without interest or at nominal interest rates, isn't that right?

Mr. CAFRITZ. Yes, it was loaned to all those affiliated companies.

Mr. SIMON. \$480,000 to 1 company and \$150,000 to 1 company, and so on.

Mr. CAFRITZ. That is right. They got a half a percent interest.

Mr. SIMON. A half of 1 percent interest?

Mr. CAFRITZ. That is right.

Mr. SIMON. And you said if some other builder built this building, it would cost 20 percent more. Actually, the building was built by Banks & Lee, wasn't it?

Mr. CAFRITZ. I was on the job. There wasn't a day went by—

Mr. SIMON. Why did you pay Banks & Lee a builder's fee for building it?

Mr. CAFRITZ. I believe I answered that question once before, Mr. Simon: At that time I had a strictly union shop. This project couldn't have been built at anywhere near the cost if we used all the union labor on it.

Mr. SIMON. Thirdly, Mr. Wilson said something about the value of the land increasing after you put a project on it. At what stage between the purchase of raw land, such as you bought here, and the completion of the finished building, does this increase in the value of the land occur?

Mr. CAFRITZ. Oh, it is liable to occur most any time. We bought a tract of land right across from the Pentagon. We paid about \$6,000 an acre for it. We just sold some of it, I think after 5 years, at a considerable profit.

Mr. SIMON. That is not what I had in mind. I gathered from Mr. Wilson's statement that it is your position that when you decide to improve raw land, that the value increases the moment the owner makes up his mind he is going to do it.

Mr. CAFRITZ. Oh, no. If you have a commitment and you are going to put substantial buildings on it, and the project—

Mr. SIMON. You say if you have a commitment?

Mr. CAFRITZ. Yes.

Mr. SIMON. Would you say this increase, then only occurred after you have the commitment?

Mr. CAFRITZ. Well, no. I think the land—when these other projects were built, I think some of that land, when we submitted it to the insurance company, went in at 50 cents a foot.

Mr. SIMON. What I am trying to find out is at what stage of your mental process of deciding to build on this land, the land value increased because you were going to improve it?

Mr. CAFRITZ. I think when you figure out that you can build a certain project, that you can build so many buildings on that project, so many units—if you take 20 acres of land and build nearly 600 units—

Mr. SIMON. When you make up your mind you can build—

Mr. CAFRITZ. Not make up your mind, oh, no. When you figure out your plans and specifications and everything else, that will show that you can build 20 or 40 substantial 3-story buildings on it.

Mr. SIMON. So, the moment you have drawn these diagrams—

Mr. CAFRITZ. Not the moment, oh, no. When you get a commitment—

Mr. SIMON. That is the point I was trying to get at. It is after you get the commitment.

Mr. CAFRITZ. After you get the commitment, yes.

Mr. SIMON. Your application was filed a long time before you got the commitment, wasn't it?

Mr. CAFRITZ. Well, we had hoped that we would get that commitment. We weren't satisfied with \$6,000. At that time, Mr. Simon, the FHA was insuring \$8,100 per unit, not \$6,000 a unit.

Mr. SIMON. I was just trying to find out how you could get this \$20,000 an acre valuation in the application on land that so far you had merely filed an application to get a mortgage.

Mr. CAFRITZ. I can tell you this, that if owners of land would go in with the original cost that they paid for the land; very few of those FHA projects would have been built.

The CHAIRMAN. Thank you very much.

Mr. CAFRITZ. Thank you.

The CHAIRMAN. Your next witness will be Mr. Franklin Trice of Richmond, Va. Mr. Trice, will you come forward, please.

Will you be sworn, please. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

TESTIMONY OF FRANKLIN A. TRICE, LEWIS GARDENS, RICHMOND, VA., ETC., ACCOMPANIED BY FRED G. POLLARD, COUNSEL

Mr. TRICE. I do.

The CHAIRMAN. Thank you, sir. You may be seated. And give the reporter your full name and address. And the gentleman with you is your lawyer?

Mr. TRICE. That is right.

Franklin A. Trice, 101 North Sixth Street, Richmond, Va.

Fred G. Pollard, attorney, American Building, Richmond, Va.

Mr. Chairman, may I make one statement before you begin, please, sir?

The CHAIRMAN. How long is it?

Mr. TRICE. Just to correct something that was inadvertently done when I was up here the last time.

The CHAIRMAN. Inadvertently done in executive session?

Mr. TRICE. Yes, sir.

The CHAIRMAN. In other words, what you want to do now is change part of your executive session testimony?

Mr. TRICE. No, sir; not the testimony. We ask the name of the project be corrected. The project was referred to as Lewis Gardens, we inadvertently said Lewis Gardens, Inc. It is actually Lewis Roads Corp.

The CHAIRMAN. We will be happy to correct the record. Wherever the word Lewis appears, it is Lewis Roads.

Mr. TRICE. It is Lewis Roads Corp. 1, 2, 3, 4, and 5, and we just inadvertently referred to it as Lewis Gardens, Inc.

The CHAIRMAN. We will check that. Counsel may proceed.

Mr. SIMON. Mr. Trice, did you personally acquire the land upon which the Lewis Gardens project was built?

Mr. TRICE. I did.

Mr. SIMON. From whom did you acquire the land?

Mr. TRICE. It was acquired from the United States Government.

Mr. SIMON. When?

Mr. TRICE. On July 13, 1948.

Mr. SIMON. On July 15?

Mr. TRICE. July 13.

Mr. SIMON. How much did you pay for it?

Mr. TRICE. \$61,790.

Mr. SIMON. How much land did that include?

Mr. TRICE. 258.8 acres.

Mr. SIMON. How many acres went into this project?

Mr. TRICE. 54.89.

Mr. SIMON. Out of 258?

Mr. TRICE. Yes, sir. There was some other acreage that went along with that, that went along to make up roads and things of that kind.

Mr. SIMON. On your own books how much of the \$61,000 cost for 258 acres did you allocate to these 54 acres?

Mr. TRICE. Well, the way I allocated it on my books and the way the Internal Revenue treated it were two different things. But it was treated as a total cost of \$13,987.50.

Mr. SIMON. \$13,987?

Mr. TRICE. And 50 cents, yes.

Mr. SIMON. Is that your cost or the Internal Revenue cost?

Mr. TRICE. That is Internal Revenue's.

Mr. SIMON. Do you disagree with it?

Mr. TRICE. We did, yes, sir; but we didn't get anywhere along those lines.

Mr. SIMON. What is your computation of the cost of this land?

Mr. TRICE. The reason we disagreed was the fact that we didn't think all of the land treated strictly as acreage was equal. In other words, we figured that portions of the land were of greater value than other portions.

Mr. SIMON. What value would you put on the 54 acres that went into this project?

Mr. TRICE. I don't recall what value we did put on, insofar as our books were concerned.

Mr. SIMON. Was it substantially more than this \$13,987 figure?

Mr. TRICE. I don't know. No, sir. I would say that in all probability it was, but I don't know.

Mr. SIMON. Well, how much greater?

Mr. TRICE. I wouldn't know.

Mr. SIMON. Twice as much?

Mr. TRICE. I don't know.

Mr. SIMON. You don't have any idea; is that right?

Mr. TRICE. I really don't have any idea.

Mr. SIMON. What was the value you put on the land in your FHA application?

Mr. TRICE. You want to treat these as 1 corporation or as 5?

Mr. SIMON. I think it would be easier to treat it as one.

Mr. TRICE. As one?

Mr. SIMON. Yes. Give me the combined figures.

Mr. TRICE. On Lewis Gardens—you want the combined figures?

Mr. SIMON. Yes.

Mr. TRICE. On the five corporations, the combined figure, we estimated the land at \$349,295.

Mr. SIMON. What was the value FHA put on it?

Mr. TRICE. \$190,000.

Mr. SIMON. So you have land which cost you \$14,000 and you valued it at \$349,000 and FHA valued it at \$190,000; is that right?

Mr. TRICE. That is true. But we didn't treat this land in estimating and arriving at those figures as what you might call raw land.

Mr. SIMON. It was the same raw land, though, wasn't it?

Mr. TRICE. It was the same raw land, but these are anticipated improvements that went into the property which created that value.

Mr. SIMON. Which were going to be paid for out of the proceeds of the mortgage?

Mr. TRICE. That is true; yes, sir.

Mr. SIMON. How long an interval intervened between the time you bought the land and the time you applied for the FHA mortgage?

Mr. TRICE. Oh, about 6 or 8 months.

Mr. SIMON. What was the total amount of the mortgages?

Mr. TRICE. The total amount of the mortgages was \$3,884,400.

Mr. SIMON. Who built the buildings?

Mr. TRICE. I, as an individual.

Mr. SIMON. Did you have a construction company?

Mr. TRICE. Oh, yes.

Mr. SIMON. What was the name of the construction company?

Mr. TRICE. Franklin A. Trice.

Mr. SIMON. Did the Lewis Roads Corp. enter into a construction contract with Franklin Trice?

Mr. TRICE. That is right.

Mr. SIMON. What was the price of that contract?

Mr. TRICE. The lump-sum contract, as arrived at by the FHA, was \$3,772,687.

Mr. SIMON. Did you actually build the building under that contract?

Mr. TRICE. No, sir. We later modified that contract and took out of it a fee of \$129,180.95, which was approximately cost plus 5 percent. As a matter of fact, I think that is exactly how it worked.

Mr. SIMON. You modified the lump-sum contract to provide for cost plus 5 percent?

Mr. TRICE. Yes, sir.

Mr. SIMON. And that gave you a fee of \$129,000; is that right?

Mr. TRICE. \$129,180.95, to be exact.

Mr. SIMON. After paying all the costs of construction and after paying yourself the \$129,000 fee, what was the cost to the Lewis Roads Corp. of these buildings?

Mr. TRICE. The total cost was \$2,925,053.28.

Mr. SIMON. Is that after paying yourself the \$129,000 fee?

Mr. TRICE. That was the total cost of construction.

Mr. SIMON. Including the fee?

Mr. TRICE. Yes.

Mr. SIMON. Did you have any other construction costs?

Mr. TRICE. There were no other construction costs, no.

Mr. SIMON. Did you have any financing costs?

Mr. TRICE. Oh, yes.

Mr. SIMON. What did they total?

Mr. TRICE. Do you mind if I confer——

Mr. SIMON. Not at all.

Mr. TRICE. To the best of my knowledge, Mr. Simon, that includes the entire overall cost.

Mr. SIMON. Does that mean the mortgage was \$970,000 in excess of the cost?

Mr. TRICE. That is right.

Mr. SIMON. And, in addition, you had a \$129,000 fee?

Mr. TRICE. That is right.

Mr. SIMON. So that you had more than 25 percent——

Mr. TRICE. No, excuse me. Not in addition. This \$129,000 is included in this \$2,925,000.

Mr. SIMON. Therefore, you had \$970,000 left over in mortgage money, after paying yourself the \$129,000 fee; is that right?

Mr. TRICE. If that is what the records show, that is what we had.

Mr. SIMON. Is that right? What I am trying to find out is whether the \$970,000—

Mr. TRICE. These figures I am giving you were taken from my books by my bookkeeper, and I assume that they are 100 percent correct. And that would be true, yes.

Mr. SIMON. There was a \$3,884,000 mortgage, you received a \$129,000 builder's fee, and there was still \$970,000 in mortgage money left over after all costs had been paid?

Mr. TRICE. That is right.

The CHAIRMAN. And you still own the project?

Mr. TRICE. I did at that time; yes, sir.

Mr. SIMON. When did you go into default on this mortgage? When was the first default under the mortgage?

Mr. TRICE. We went into default right around January 1, 1953.

Mr. SIMON. Was that the first default, Mr. Trice?

Mr. TRICE. That is right.

Mr. SIMON. Had you missed an interest payment before that?

Mr. TRICE. No, sir.

Mr. SIMON. You hadn't missed a single interest payment?

Mr. TRICE. No, sir.

Mr. SIMON. On October 29, 1952, did you pay out any dividends to yourself?

Mr. TRICE. We never paid out any dividends.

Mr. SIMON. What do you call this \$565,000 on October 29, 1952?

Mr. TRICE. That is what we call capital distribution.

Mr. SIMON. Capital distribution?

Mr. TRICE. Yes, sir.

Mr. SIMON. Paid out by the corporation to the stockholders. And I take it by "capital distribution" you mean you treated it as a long-term capital gain?

Mr. TRICE. That is right.

Mr. SIMON. Had you adhered to your original contract of a lump-sum contract, this so-called windfall profit would have ended up with you personally having had to pay more income tax on it.

Mr. TRICE. That is true.

Mr. SIMON. I take it your major reason for revising the contract was to leave the money in the sponsoring corporation so it would be a long-term capital gain; is that right?

Mr. TRICE. Well, at the time we modified the contract, of course, we didn't know what profits there might be because that was done in the early stages of construction. As a matter of fact, as I recall, that was done pretty soon after construction was started. So we had no idea what the profits might be.

Mr. SIMON. Well, any profits that were there, you wanted to be left in where you could get a long-term capital gain.

Mr. TRICE. Any time I can get a long-term capital gain, as against straight income, I am delighted.

Mr. SIMON. You testified the property went into default on January 1, 1953. Isn't it a fact that FHA had to defer the payments long before that?

Mr. TRICE. But it never went into default.

Mr. SIMON. Well, we're being technical. They deferred the payments and that kept it from going into default.

Mr. TRICE. That was not uncommon, Mr. Simon, in these various projects. As a matter of fact, I will explain why that happened.

Mr. SIMON. Tell me first when it happened.

Mr. TRICE. I can give you that date if you will let me refer to some papers here.

Mr. SIMON. 1950, wasn't it?

Mr. TRICE. I don't recall. That was the 31 of July 1950.

Mr. SIMON. 1950?

Mr. TRICE. Yes. That is on section 3.

Mr. SIMON. At that time you asked FHA to defer payments; is that right.

Mr. TRICE. That is right.

Mr. SIMON. And you waived payments to the replacement fund; is that right?

Mr. TRICE. Well, it is a little different from that. We requested the mortgagee to request the FHA, in which the mortgagee agreed, and that is the way those things were handled.

Mr. SIMON. Then at that time you requested the mortgagee to request FHA to defer the payments, and FHA did so, you had more than \$500,000 on hand—

Mr. TRICE. No, I don't think so, because we hadn't finished construction. I don't know what we had on hand at that time. We hadn't finished construction on all 5 projects at that time, and we only asked for deferments to 3, 4, and 5.

Mr. SIMON. Which ones did you ask them to defer the payments on?

Mr. TRICE. Sections 3, 4, and 5.

Mr. SIMON. Sections 3, 4, and 5 had very substantial surpluses of the mortgage proceeds over costs, didn't they?

Mr. TRICE. Yes, but they weren't completed.

Mr. SIMON. Weren't those sections completed at that time?

Mr. TRICE. In 1950?

Mr. SIMON. Yes.

Mr. TRICE. Well, I can give you the completion dates. Just a minute, I have all that information, but just give me—

Mr. SIMON. What I would like to know is whether the sections you asked for deferment of payments on weren't completed before you ask for the deferments.

Mr. TRICE. Yes, sir; that is true.

Mr. SIMON. So that you did have these excess mortgage proceeds over costs at the time you asked FHA for the deferment?

Mr. TRICE. I'm not sure we had the total amount, because we closed those corporations out at different times.

Mr. SIMON. You had at least \$300,000 then, didn't you?

Mr. TRICE. Possibly, in all of them. But I wouldn't say we had that much in the ones that we asked for deferment on.

Mr. SIMON. Now, did you loan about \$500,000 or more to the Lee Circle Corp.?

Mr. TRICE. Yes, sir.

Mr. SIMON. When did you make that loan?

Mr. TRICE. You want this treated as a whole, too?

Mr. SIMON. I would like to know when you loaned the first money to Lee Circle.

Mr. TRICE. The first money was loaned February 9, 1951—wait a minute. December 11, 1950.

Mr. SIMON. December 11, 1950?

Mr. TRICE. Yes.

Mr. SIMON. So that in August you didn't have enough money to pay the FHA the payments that were due?

Mr. TRICE. We never claimed that, Mr. Simon. We never claimed we didn't have the money to pay. We asked for a deferment and it was granted.

Mr. SIMON. On what ground did you ask for a deferment?

Mr. TRICE. The fact that the apartments were not rented.

Mr. SIMON. They didn't even ask whether you had the money to pay it?

Mr. TRICE. No, sir.

The CHAIRMAN. And they granted you a deferment?

Mr. TRICE. They granted a deferment.

The CHAIRMAN. How much money did you have in the bank at that time?

Mr. TRICE. I don't know, sir.

Mr. SIMON. How much money did you loan Lee Circle?

Mr. TRICE. We loaned Lee Circle an amount of \$650,000.

The CHAIRMAN. In other words, that \$650,000 had you not loaned it to Lee Circle, would have been in the bank when you asked for deferment and FHA gave you a deferment?

Mr. TRICE. I doubt very much if that much was in the bank because we had not closed out on all three of them.

The CHAIRMAN. Was \$500,000 in the bank? Did you disclose to FHA that you had a few hundred thousand—

Mr. TRICE. Yes, sir. We filed our papers as promptly—

The CHAIRMAN. What man in FHA gave you a deferment, knowing that you had a lot of money in the bank?

Mr. TRICE. I don't say they gave it to us knowing we had a lot of money in the bank. But we asked for the deferment, and there was no question about it. I can give you the signature.

The CHAIRMAN. What man gave that to you?

Mr. TRICE. I will have to refer to that again, sir.

The CHAIRMAN. What official did you do business with? Was it in the Washington office or the Richmond office?

Mr. TRICE. Actually, what we did, as I explained to you a moment ago, the request was made through the mortgagee and the mortgagee in turn made the request to the FHA, which was granted on the date that I gave you.

The CHAIRMAN. Who was the mortgagee?

Mr. TRICE. And it was signed by—

The CHAIRMAN. Who was the mortgagee? Who held the mortgage? who made this request to FHA?

Mr. TRICE. The Atlantic Life Insurance Co.

The CHAIRMAN. The Atlantic Life Insurance Co.?

Mr. TRICE. Yes.

The CHAIRMAN. Where are they located?

Mr. TRICE. Richmond, Va.

The CHAIRMAN. Did they know at the time they made the request for this deferment that you had a few hundred thousand cash on hand?

Mr. TRICE. I doubt that seriously.

The CHAIRMAN. Did you tell them?

Mr. TRICE. No, we didn't tell them. We weren't required to furnish any statements to the mortgagee.

The CHAIRMAN. You mean to tell me this Atlantic Life Insurance Co. would just take your word for it, didn't ask you for a statement, and made an application to FHA for a deferment on payments, without checking into your ability to meet the payments? I am amazed.

Mr. TRICE. May I read this to you, sir?

The CHAIRMAN. Yes.

Mr. TRICE. That is what they call a modified agreement:

This agreement made this 31st day of July 1950 (by and between Lewis Roads Corp., section III, hereinafter called mortgagor, and Atlantic Life Insurance Co., hereinafter called mortgagee;

Witnesseth:

Whereas, mortgagor did execute on March 22, 1949, its promissory note in the principal sum of \$839,300, payable to mortgagee and secured by deed of trust of even date from mortgagor to A. B. Scott and Sam B. Witt, Jr., trustees, which deed of trust is of record in the office of the clerk of Circuit Court of Henrico County, Va., book 465, at page 148;

Whereas the said note provides that the amortization payments shall begin on the 1st day of August 1950 and the mortgagor has requested a deferment of the commencement of said amortization payments, and that said payments shall commence on December 1, 1950, instead of August 1, 1950, in order to permit mortgagor to endeavor to obtain occupancy sufficient to provide income to carry the project and maintain the mortgage current;

Whereas, mortgagee is agreeable to such deferment, providing that Federal Housing Administration will approve such deferment and this agreement: Now, therefore, this agreement witnesseth: In consideration of the premise, the parties hereto agree that:

1. The amortization payments on said note shall commence on December 1, 1950, instead of August 1, 1950. Interest alone on said note shall be payable monthly on the first day of each month up to and including November 1, 1950—

The CHAIRMAN. That is where? Atlantic Life Insurance Co.?

Mr. TRICE. Yes, sir.

The CHAIRMAN. Where are they located?

Mr. TRICE. Richmond, Va.

The CHAIRMAN. Who is the president?

Mr. TRICE. Mr. Robert B. Hatchem.

The CHAIRMAN. Robert B. Hatchem?

Mr. TRICE. Yes, sir.

Mr. SIMON. Did FHA approve that agreement you have been reading?

Mr. TRICE. That's right.

It is signed by me as president of the Lewis Roads Corp. It is signed by the vice president of the Atlantic Life Insurance Co.

The CHAIRMAN. What is the name of the vice president?

Mr. TRICE. Charles W. Phillips.

The CHAIRMAN. And what FHA gentleman approved it?

Mr. TRICE. FHA signed by Clyde L. Powell, Assistant Commissioner.

The CHAIRMAN. By Clyde L. Powell and the other gentleman is who?

Mr. TRICE. Charles W. Phillips.

The CHAIRMAN. And they approved that, Phillips asked for it and Powell approved it——

Mr. TRICE. Yes, sir.

The CHAIRMAN. Knowing, or did they know——

Mr. TRICE. I asked for it. The corporation asked for it, and it was approved by the mortgagee.

The CHAIRMAN. My point is did Powell or did Mr. Phillips or Atlantic ask you why you were asking for a deferment?

Mr. TRICE. Well, if you read this deferment, it explains why—it says to obtain occupancy.

The CHAIRMAN. To obtain what?

Mr. TRICE. Occupancy. I just read it to you.

The CHAIRMAN. But, you had plenty of money in the bank to make the payments even without occupancy.

Mr. TRICE. Maybe we didn't want to spend that money.

The CHAIRMAN. I think you are being honest.

Mr. TRICE. I'm being honest about it.

Mr. SIMON. Did they know you had the money to use for that?

Mr. TRICE. Atlantic did not know it; no, sir.

Mr. SIMON. Did Powell know it?

Mr. TRICE. I don't think at that time the FHA knew it, because we were only required to furnish annual statements after the job was completed, which we filed on each project each year, showing that they had these assets.

Mr. SIMON. Between July 31, 1950, when you got the first deferment, and January 1, 1953, when the project went into default, how many additional deferments were there?

Mr. TRICE. There weren't any others.

Mr. SIMON. Were you current after 1950?

Mr. TRICE. Up until the time they went into default.

Mr. SIMON. When did the FHA take possession of these buildings?

Mr. TRICE. On No. 1 it was March 22, 1953.

No. 2 was March 22, 1953.

No. 3 was March 22, 1953.

No. 4 was April 30, 1953.

And, No. 5 was April 30, 1953.

The CHAIRMAN. Let me see if I have the correct story on all these projects: The total mortgage proceeds of all of them was approximately a million dollars more than the total cost of all of them. Is that correct?

Mr. TRICE. I think these figures show approximately \$970,000.

The CHAIRMAN. \$970,000. I said approximately a million dollars.

Mr. TRICE. Yes, sir.

The CHAIRMAN. In addition to that, you got \$129,000 as the builder's fee, which means that it was a little over a million dollars.

Mr. TRICE. That's right.

The CHAIRMAN. And, you declared a dividend or a capital stock dividend of how much, \$500,000?

Mr. TRICE. We declared a cash distribution——

The CHAIRMAN. Yes, of \$556,000.

Mr. TRICE. Yes, sir; \$556,000.

The CHAIRMAN. And when it was all over, you gave the buildings back, the whole project back to FHA, and walked out.

Mr. TRICE. No, sir; we didn't give it back, sir. I beg your pardon. It was foreclosed, and the mortgage, the original mortgage was only \$384,400, which a considerable amount of that has been paid, and the property sold under foreclosure for \$3,800,000.

The CHAIRMAN. My point is how did you come to lose the property?

Mr. TRICE. I came to lose it because I decided that I didn't want to wrestle with it any longer.

The CHAIRMAN. You deliberately gave it back?

Mr. TRICE. There was nothing I could do about it. I didn't have the money to make the payments.

The CHAIRMAN. You would have had if you hadn't taken out this \$600,000.

Mr. TRICE. That's true. But, that money had been taken out.

Mr. SIMON. What about the Lee Circle Building; do you still own that?

Mr. TRICE. No, sir.

Mr. SIMON. What happened to that?

Mr. TRICE. That was sold.

Mr. SIMON. Sold at a profit?

Mr. TRICE. No, sir, sold at a loss.

Mr. SIMON. \$600,000 worth of this corporation's funds went into that building, didn't it?

Mr. TRICE. No, not that total amount.

Mr. SIMON. What was the total amount?

Mr. TRICE. We actually paid off, out of that \$650,000, we paid back \$197,372.

Mr. SIMON. What was the—

Mr. TRICE. The total amount was \$452,628.

Mr. SIMON. \$452,000 went into the Lee Circle Building; is that right?

Mr. TRICE. That's right.

Mr. SIMON. Isn't it a fact that one of the reasons this project failed is because it had bottled gas or bottled propane for heating and cooking purposes, and that ran the tenants fuel costs up 70 to 80 percent?

Mr. TRICE. That is not 100 percent correct, Mr. Simon.

Mr. SIMON. What percentage—

The CHAIRMAN. Is it 80 percent, 75 percent?

Mr. TRICE. If I may, I would like to go into detail—

Mr. SIMON. That was one of the factors?

Mr. TRICE. We went to a great deal of trouble for figuring the cost of gas as an overall utility. When I say overall, I mean for heating, cooking, domestic hot water, and refrigeration. And, actually gas is cheaper than a combination of electricity and oil.

Now, the reason for that, Mr. Simon, is the fact that your gas bills do run high during the winter months, and tenants have that type, when they get a gas bill of \$21 or \$22 during the winter months, they holler their heads off. They forget about the four and a half dollar or six and a half dollar gas bill that they get during the summer.

We have another large project of 450 units, and that is 100 percent gas, and I defy anybody to say that they can heat, cook, furnish domestic hot water and refrigeration as cheap as we are furnishing it with 100 percent gas.

Mr. SIMON. The tenants were unhappy about these gas bills in the winter, which was one of the factors.

Mr. TRICE. Oh, yes, that is one of the factors.

Mr. SIMON. You owned the bottled propane company, didn't you?

Mr. TRICE. No, sir.

Mr. SIMON. You had an interest in it?

Mr. TRICE. Yes, sir.

Mr. SIMON. How big an interest?

Mr. TRICE. 25 percent. I had to take that interest in order to get them to make the installation.

Mr. SIMON. Why didn't you use the regular utilities, public utility companies?

Mr. TRICE. Well, there is no public utility there to furnish us oil, for instance—or gas from a public utility company in that location.

Mr. SIMON. You could have put in oil.

Mr. TRICE. Yes, we could have. We thought the gas was cheaper and I still think it is cheaper as an overall operation.

Mr. SIMON. Mr. Trice, going to the foreclosure, you were there at the foreclosure sale, weren't you?

Mr. TRICE. Yes, sir.

Mr. SIMON. Who else was there?

Mr. TRICE. I can't think.

Mr. SIMON. Will you name all the people you can recollect at the foreclosure sale:

Mr. TRICE. The trustees were there.

Mr. SIMON. What are their names?

Mr. TRICE. Mr. A. B. Scott, Sam B. Witt, Jr.

Mr. SIMON. Sam B. who?

Mr. TRICE. Witt, W-i-t-t.

Mr. SIMON. Who else?

Mr. TRICE. There were a number of FHA representatives there.

Mr. SIMON. Excluding the FHA people, who else was there?

Mr. TRICE. There were several representatives of the Atlantic Life Insurance Co.

Mr. SIMON. What were their names?

Mr. TRICE. Well, I know Mr. Costaphany was there.

Mr. SIMON. How do you spell that?

Mr. TRICE. C-o-s-t-a-p-h-a-n-y, I think—I'm not sure.

Mr. SIMON. Who else?

Mr. TRICE. Mr. Shuman.

Mr. SIMON. How do you spell that?

Mr. TRICE. S-h-u-m-a-n.

Mr. SIMON. Who else?

Mr. TRICE. I don't know that there were any other representatives from the Atlantic Life there.

Mr. SIMON. Who else was there?

Mr. TRICE. There was a representative from the Guardian Life Insurance Co. They were mortgagees on one of the projects.

Mr. SIMON. What were their names?

Mr. TRICE. He was a lawyer that they had employed to represent them.

Mr. SIMON. Did he do any bidding?

Mr. TRICE. Yes. He brought it in.

Mr. SIMON. What was his name?

Mr. TRICE. Epps.

Mr. SIMON. Epps?

Mr. TRICE. Yes.

Mr. SIMON. Who else was there?

Mr. TRICE. I don't know. Just the general run of people who attend.

Mr. SIMON. Now, you said Epps did some bidding, is that right?

Mr. TRICE. Epps bought in one of the projects.

Mr. SIMON. You did some bidding, didn't you?

Mr. TRICE. Yes.

Mr. SIMON. Who else did some bidding?

Mr. TRICE. There were others. I don't know who they were.

Mr. SIMON. Can you name any one person who did bidding besides yourself and Epps?

Mr. TRICE. I don't recall any bids from anyone whom I knew.

Mr. SIMON. Did you discuss this bidding with anybody before the actual bidding?

Mr. TRICE. Yes, sir. We discussed not only the bidding, but discussed various angles of the foreclosure with others.

Mr. SIMON. Who did you discuss it with?

Mr. TRICE. Oh, 1, 2 and 3—No. 1, the Guardian Life Insurance Co. was the mortgagee. And on 2 and 3 the Atlantic Life was the mortgagee.

Mr. SIMON. This is what I am trying to get at, Mr. Trice. Did you discuss with anyone the possibility of putting in bids to raise the bidding so that FHA—

Mr. TRICE. We had a letter from—a copy of a letter written by the Guardian Life, authorizing their attorney to bid the property up to the amount of the mortgage.

Mr. SIMON. What I'm trying to find out is: FHA currently estimates they are going to lose \$2 million on these projects, and I would like to know why you bid in for the full amount?

Mr. TRICE. I would like to say this in answer to your question, Mr. Simon, and I talked to the FHA representatives yesterday, and they say that the local office has not given out any such information as a \$2 million loss down there, and they are completely at a loss to know why this statement was made up here.

Mr. SIMON. The Deputy Administrator for the agency so testified up here.

Mr. TRICE. I am just saying what they told me with reference to the loss.

If the property is handled properly and the rents lowered, I don't think FHA would ever have to take any loss.

Mr. SIMON. You wouldn't be interested in buying at FHA costs, would you?

Mr. TRICE. At their cost?

Mr. SIMON. Yes.

Mr. TRICE. No, sir.

The CHAIRMAN. What gentleman of FHA yesterday told you that? What is the name of the gentleman?

Mr. TRICE. It wasn't yesterday. Did I say yesterday?

The CHAIRMAN. Whenever it was.

Mr. TRICE. Over a period of time—

The CHAIRMAN. I thought you said an FHA official or an FHA man yesterday told you they didn't think they were going to lose

that much money and they couldn't understand where this \$2,000,000 figure came from. Now, my question is who gave you——

Mr. TRICE. Powell Seward, the administrator in Richmond has told me on one or two occasions that he did not think it would result in a \$2,000,000 loss.

The CHAIRMAN. He couldn't understand where the \$2,000,000 came from.

Mr. TRICE. Seward?

The CHAIRMAN. What is his name?

Mr. TRICE. Powell Seward.

The CHAIRMAN. S-e-w-a-r-d?

Mr. TRICE. Yes, Seward, the State director.

Mr. SIMON. What was it you were saying about Guardian's attorney bidding in for the full amount? Do you have a copy of the letter?

Mr. TRICE. Yes.

Mr. SIMON. Could we have it?

Mr. TRICE. Surely.

Mr. SIMON. That letter says to start bidding at a nominal amount, is that right?

Mr. TRICE. Yes, but he also says to go up to the full amount if necessary.

Mr. SIMON. I would like to know whether you participated in any way in raising that bidding, so that they would get the full amount.

Mr. TRICE. Yes, sir, I bid on the property.

Mr. SIMON. Did you have other people bid for you?

Mr. TRICE. No, sir, I did my own bidding.

Mr. SIMON. What was the highest bid you made?

Mr. TRICE. I don't recall, but it was close to the amounts that they were knocked out at.

Mr. SIMON. It was close to the top amount?

Mr. TRICE. That they were knocked out at.

Mr. SIMON. Did you know in advance that if he was pushed high enough, the Guardian's lawyer had instructions to go to the full——

Mr. TRICE. I had that letter.

Mr. SIMON. You had it in advance?

Mr. TRICE. Yes, sir.

Mr. SIMON. Was your bidding close to the top amount for the purpose of pushing him to the top?

Mr. TRICE. My bidding was as high as possible to protect the interests of those corporations; yes, sir.

Mr. SIMON. So as to avoid any deficiency?

Mr. TRICE. That's right, sir.

Mr. SIMON. But, you didn't intend to buy the property, did you?

Mr. TRICE. I don't know what might have happened if they weren't knocked out.

Mr. SIMON. Before you bid it up, you knew Guardian's lawyer had full instructions to go the full amount——

Mr. TRICE. I just stated, Mr. Simon, that we had that letter; yes, sir.

Mr. SIMON. Have you any interest in other FHA-insured projects?

Mr. TRICE. No, I don't at present, no.

Mr. SIMON. You don't?

Mr. TRICE. No.

Mr. SIMON. Have you ever?

Mr. TRICE. Yes.

Mr. SIMON. What are they?

Mr. TRICE. Malvern Manor in Richmond.

Mr. SIMON. Any others?

Mr. TRICE. Cery Malvern.

Mr. SIMON. How do you spell that?

Mr. TRICE. C-e-r-y M-a-l-v-e-r-n.

Mr. SIMON. Any others?

Mr. TRICE. Thomason Park. I was interested in a half of the contract as builder to Thomason Park, which is known as Thomason Park, Inc., at Quantico, Va.

Mr. SIMON. That is a Wherry Act project, isn't it?

Mr. TRICE. Yes.

Mr. SIMON. Do you still have an interest in it?

Mr. TRICE. No.

Mr. SIMON. Do you still have an interest—

Mr. TRICE. I never had any interest, other than the contract.

Mr. SIMON. Did the Malvern Manor, or Cery Malvern projects mortgage out?

Mr. TRICE. No, sir, not as I understand what you mean by mortgaging out.

Mr. SIMON. Was it the cost of construction—

Mr. TRICE. In excess of the loan in both cases.

Mr. SIMON. In both cases?

Mr. TRICE. Yes, sir.

Mr. SIMON. And, this Quantico Wherry Act project you say you never had any interest in?

Mr. TRICE. Yes, I had an interest in it, a half interest in the construction.

Mr. SIMON. Who were the owners and sponsors of the corporation?

Mr. TRICE. Frank S. Richardson—and he had two associates. I don't recall just how that stock is split up. My wife and two children were the other two sponsors.

The CHAIRMAN. Your wife and two children?

Mr. TRICE. Yes, sir.

The CHAIRMAN. But, you said you had no interest.

Mr. TRICE. I said I had a half interest in the construction.

Mr. SIMON. But, you said you had no interest in the sponsoring corporation.

Mr. TRICE. I don't own any stock personally.

Mr. SIMON. But your wife and children do.

Mr. TRICE. That's right.

Mr. SIMON. How much do they own?

Mr. TRICE. They own a half interest of the stock.

Mr. SIMON. They own 50 percent of the sponsoring corporation.

Mr. TRICE. That's right.

Mr. SIMON. What was the mortgage there?

Mr. TRICE. The mortgage was—excuse me, off the record.

(Discussion off the record.)

Mr. TRICE. I'm sure that the total amount of the mortgage was \$3,654,00.

Mr. SIMON. What was the construction contract price?

Mr. TRICE. I don't recall.

Mr. SIMON. More, or less than that amount?

The CHAIRMAN. Did you say you were the contractor?

Mr. TRICE. Yes.

Mr. SIMON. Trice & Richardson were the contractors?

Mr. TRICE. That's right.

The CHAIRMAN. You don't remember what the contract amount was?

Mr. TRICE. No, sir; I'm like the gentleman that testified here earlier. That was 2 years ago and I had no reason to look up those records before coming up here.

Mr. SIMON. Was it more, or less than the amount of the mortgage?

Mr. TRICE. The total cost?

Mr. SIMON. No, the construction contract.

Mr. TRICE. I don't know. The total cost of the project ran \$271,400 in excess of the loan.

Mr. SIMON. Whose cost was that?

Mr. TRICE. That was taken strictly from our books.

Mr. SIMON. Was that the cost of the sponsoring corporation, or was it the cost of Trice & Richardson?

The CHAIRMAN. Are you testifying that you lost \$270,000 on building the project?

Mr. TRICE. No, sir; I don't think we would lose that, Senator, because that corporation is well rented and it is in the position to pay off, and I think we will eventually get our money back.

Mr. SIMON. Is there a maintenance company?

Mr. TRICE. No. We operate there with a maintenance crew, of course, and a manager, and the books are kept at H. D. Richardson Co. in Richmond.

Mr. SIMON. Isn't there a management company, of which you are the president?

Mr. TRICE. No, sir.

Mr. SIMON. Are you president of the sponsoring corporation? Do you do the managing?

Mr. TRICE. Yes, sir.

Mr. SIMON. Does the sponsoring corporation do the managing?

Mr. TRICE. I would say that that is what you would call it, that we do the managing, yes, sir, along with the H. D. Richardson Co.

Mr. SIMON. Do you get a salary as president of the sponsoring company?

Mr. TRICE. No, sir, we have never taken any salary.

Mr. SIMON. Who is the architect on the job?

Mr. TRICE. Pringle—which job are you talking about, now?

Mr. SIMON. This Wherry job at Quantico.

Mr. TRICE. P-r-i-n-g-l-e.

Mr. SIMON. Is he an employee of Trice & Richardson?

Mr. TRICE. He was; yes.

Mr. SIMON. Does the cost you have given us include a 5 percent architect's fee?

Mr. TRICE. No, I am figuring actual cost.

Mr. SIMON. You say the cost of \$271,000 more than the actual mortgage, that is the actual cost—

Mr. TRICE. The actual cost, had we paid the 5 percent architect's fee, would have been in excess of the \$271,000.

Mr. SIMON. It doesn't include any fees to yourself or to Richardson?

Mr. TRICE. No, sir.

The CHAIRMAN. Was the property built on Government-owned land?

Mr. TRICE. We took a builder's fee out.

Mr. SIMON. How much was that?

Mr. TRICE. It was 5 percent.

The CHAIRMAN. How could you lose \$271,000?

Mr. TRICE. Because it ran over and above that.

The CHAIRMAN. It ran over and above the builder's fee—

Mr. TRICE. That is the sponsoring corporation that would stand to lose \$271,400.

Mr. SIMON. What was the contract between the sponsoring and the construction company?

Mr. TRICE. It was on a cost plus 5 percent.

Mr. SIMON. I see. And, the \$271,000 is what the sponsoring corporation had to pay the construction company?

Mr. TRICE. Yes, we did not—as I say, I don't recall exactly what we took out as builders' fees, because it did not—they didn't have enough money to pay us the full 5 percent. There is some discrepancy there. There is some difference there.

Mr. SIMON. How much actual cash have you and your wife, or children in this project?

Mr. TRICE. Well, at the moment?

The CHAIRMAN. At any time.

Mr. TRICE. I couldn't give you that. But, it was originally half of \$271,400.

Mr. SIMON. This \$271,000 includes a 5 percent builder's fee to you and Richardson, doesn't it?

Mr. TRICE. That's right.

The CHAIRMAN. Five percent on \$3 million would be \$150,000.

Mr. POLLARD. Excuse me a moment, sir.

Mr. TRICE. I'm not in a position to give you those accurate figures, Mr. Simon. I can give you any figures that you want on Lewis Gardens.

Mr. SIMON. That would be about \$165,000.

Mr. TRICE. I am sure we took less than \$150,000 in fees.

The CHAIRMAN. How much money did you pay for the stock in this sponsoring company? That is, how much money did your wife and children pay?

Mr. TRICE. It was a very nominal amount.

The CHAIRMAN. What do you mean by nominal? A thousand dollars?

Mr. TRICE. I think a thousand dollars would cover it; yes.

The CHAIRMAN. You got into this Wherry project at Quantico after you had defaulted in the FHA projects in Richmond?

Mr. TRICE. No, sir. This Quantico project was completed—just a second, let me see.

The CHAIRMAN. Was it completed before you completed the Richmond projects?

Mr. TRICE. Oh, no, no. Quantico, I think, was completed in August of 1952.

The CHAIRMAN. Did you ever give any FHA officials or employees anything of value?

Mr. TRICE. No, sir.

The CHAIRMAN. Did they ever ask you for anything of value?

Mr. TRICE. No, sir.

The CHAIRMAN. Do you know Mr. Powell?

Mr. TRICE. Yes, sir. Mr. Clyde Powell?

The CHAIRMAN. Mr. Clyde Powell.

Mr. TRICE. Yes, sir.

The CHAIRMAN. How well do you know him?

Mr. TRICE. Very slightly, sir.

The CHAIRMAN. Slightly?

Mr. TRICE. Yes, sir.

The CHAIRMAN. Were you ever in his home, or he in your home?

Mr. TRICE. No, sir.

The CHAIRMAN. Where did you meet him?

Mr. TRICE. In the FHA offices in Washington.

The CHAIRMAN. Did you ever meet him outside of the FHA offices?

Mr. TRICE. No, sir. I testified to this once, Senator. Mr. Gallyn, I think it was. We had a meeting in the FHA offices, with several FHA officials and lawyers and so forth, and we had our lawyers and there were other lawyers there, and when we got ready to go to lunch, I suggested or my attorney or somebody suggested that we all go and have a bite to eat together, which we did.

Now, Mr. Powell sat in on parts of that conference. Whether he went to lunch with us, or not, I don't recall. But, if he went to lunch with us, it is the only time I ever saw him outside of the FHA office.

The CHAIRMAN. You did your business primarily with the State director in Virginia?

Mr. TRICE. We would have occasions to come to Washington to discuss various matters with Mr. Powell or some of the attorneys or some of the other officials there at FHA.

The CHAIRMAN. Are you participating at the moment in any FHA projects?

Mr. TRICE. No, sir.

The CHAIRMAN. You are not building any at the moment?

Mr. TRICE. No, sir.

The CHAIRMAN. How many times did you discuss matters with Mr. Powell in Washington?

Mr. TRICE. Well, I would say not over 4 or 5 times, that he was ever called into any conferences that we had.

The CHAIRMAN. I believe that's all the questions I have.

Mr. POLLARD. May I point out one thing here, sir?

The CHAIRMAN. Yes.

Mr. POLLARD. On the land, in estimated requirements, were about 10 percent more land than actually went into the project. Of course, it was all projected at the time the estimated requirements were set up. So, there is that discrepancy.

And, the other thing I wanted to point out, sir, if the original lump-sum contract had not been modified, there would have been little, if any, mortgaging out in the Lewis Gardens.

The CHAIRMAN. We are about ready to recess now until 10 o'clock tomorrow morning. We will have two witnesses tomorrow morning. We will have Mr. Woodner of Woodner Apartments, Washington, D. C., and Mr. Carmack of Murfreesboro, Tenn.

Then, we will have another hearing at 10:30 a. m. on Thursday, at which time we will hear Mr. Marcus, an attorney from New Jersey. He will be here at 10:30 Thursday. He will be the only witness Thursday. Mr. George Marcus.

Then, I rather suspect we will recess our hearings here in Washington, D. C., until the early part of October. We will hold hearings in New York, California, Cleveland, and other places. But, I rather suspect the next 2 days will close our hearings here in Washington.

Unless there is objection, unless somebody cares to be heard, has something to say, we will recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:05 p. m., the committee recessed, to reconvene at 10 a. m., Wednesday, August 4, 1954.)

FHA INVESTIGATION

WEDNESDAY, AUGUST 4, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, at 10:10 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart and Lehman.

Also present. Mr. William Simon, general counsel, FHA Investigation.

The CHAIRMAN. The committee will please come to order. The first witness this morning will be Mr. Woodner of the Woodner Apartments in Washington, D. C.

Will you come forward, Mr. Woodner, please.

The CHAIRMAN. Will you be sworn, Mr. Woodner.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth so help you God?

TESTIMONY OF IAN WOODNER AND LEWIS ROWEN, THE WOODNER, WASHINGTON, D. C., ETC., ACCOMPANIED BY ROBERT H. WINN AND JOSEPH M. WILLIAMSON, COUNSEL

Mr. WOODNER. I do.

The CHAIRMAN. Mr. Rowen, will you be sworn. Do you solemnly swear the testimony you are to give will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. ROWEN. I do.

The CHAIRMAN. Now each of you gentlemen are attorneys. Will you give your firm name and address to the reporter?

Mr. WINN. Robert H. Winn, of the firm of Hamel, Park, & Saunders, Shoreham Building, Washington, D. C.

The CHAIRMAN. Is it your wish, Mr. Woodner, that they take their pictures and get out?

Mr. WOODNER. Not necessarily that they get out, but if they would refrain from taking pictures during the course of the testimony.

The CHAIRMAN. At your request they will proceed to take pictures now and I shall ask the photographers to be careful while you are testifying.

You have no objection to pictures as such?

Mr. WOODNER. No.

The CHAIRMAN. I feel that the witness is entitled to have his wishes respected in these matters.

Mr. SIMON. Will you give the reporter your full name and address, please?

Mr. WOODNER. My name is Ian Woodner, 39 West 67th Street, New York City.

Mr. SIMON. Your occupation, Mr. Woodner?

Mr. WOODNER. I am an architect and a builder.

Mr. SIMON. How many section 608 projects have you been connected with directly or indirectly?

Mr. WOODNER. Twenty-six separate section 608 corporations.

Mr. SIMON. Were all of those corporations subsidiaries of Shipley Corp.?

Mr. WOODNER. All except two, which are, at the present at least—

Mr. SIMON. My question, Mr. Woodner, was related to section 608 projects.

Mr. WOODNER. To be correct, I would say all section 608 projects are subsidiaries of the Shipley Corp.

Mr. SIMON. How many section 608 projects did you have?

Mr. WOODNER. Twenty-four.

The CHAIRMAN. You had 24 sections 608's?

Mr. WOODNER. Some of them are combined into what we normally call a project.

The CHAIRMAN. We will get into that later but you have two so-called defense projects.

Mr. WOODNER. Wherry housing projects, that is correct.

The CHAIRMAN. At the present time we are talking only about section 608's.

Mr. SIMON. Your section 608's were all wholly owned subsidiaries of Shipley?

Mr. WOODNER. They are.

Mr. SIMON. Who are the stockholders of the Shipley Corp.?

Mr. WOODNER. Ian Woodner, myself; Max Woodner, my brother; Beverly Woodner, my sister.

Mr. SIMON. How much of the stock do you own?

Mr. WOODNER. 75 percent.

Mr. SIMON. Did you give the remaining stock to your brother and sister, or did they buy it?

Mr. WOODNER. I believe they purchased it.

Mr. SIMON. How much did they pay for it?

Mr. WOODNER. I do not know.

Mr. SIMON. Do you know whether they paid \$1 a share or \$1,000 a share?

Mr. WOODNER. I don't know what they paid for it. It was set up in the original corporation and I am pretty sure it was for services or for cash and the facts I do not have.

Mr. SIMON. Do you know whether it was for services or for cash?

Mr. WOODNER. I believe for both.

Mr. SIMON. Do you have any idea how much cash?

Mr. WOODNER. I do not.

Mr. SIMON. Did Shipley Corp. sponsor a section 608 project known as Fayette Court?

The CHAIRMAN. I wanted to get back to this stock business. You say you own 75 percent, Mr. Woodner?

Mr. WOODNER. That is correct.

The CHAIRMAN. And your sister owns how much?

Mr. WOODNER. Six and one-quarter percent.

The CHAIRMAN. And your brother?

Mr. WOODNER. Eighteen and three-quarters.

The CHAIRMAN. And your testimony is that you do not know whether they did or did not pay for the stock?

Mr. WOODNER. My testimony is I do not know how much they paid for the stock.

The CHAIRMAN. Do you know whether they paid anything for it?

Mr. WOODNER. I believe when the corporation was set up that they did pay for it in cash and services.

The CHAIRMAN. We have asked you that question before in executive session. Didn't it occur to you as a result of the question in executive session that you might look it up?

Mr. WOODNER. Well, actually it did not occur to me.

The CHAIRMAN. It seems awfully strange to me that here is a corporation, Shipley Corp., a holding company that owns 24 other corporations, of which you own 75 percent, the corporation that owns all your other corporations, and you wouldn't know whether your sister and your brother did or did not pay for the stock.

Mr. WOODNER. The corporation was formed before these were created. They were created as a result of the activities of the corporation, and that was a long time ago.

The CHAIRMAN. Did you pay for your 75 percent?

Mr. WOODNER. I believe so.

The CHAIRMAN. What do you mean, "you believe so"?

Mr. WOODNER. Well, I probably could say yes.

The CHAIRMAN. Then why don't you say yes, please? Why do you say "believe"? If you don't know, then "believe" is the proper word. Do you know or do you not know whether you paid for that stock?

Mr. WOODNER. I don't know. I don't absolutely know, but I believe I did pay for it in cash and services, yes.

The CHAIRMAN. Cash and services?

Mr. WOODNER. Yes.

The CHAIRMAN. Do you know how much you paid for it?

Mr. WOODNER. No, I do not know.

The CHAIRMAN. How long ago was it?

Mr. WOODNER. In 1944.

The CHAIRMAN. We also asked you those same questions in executive session previously. Didn't it occur to you then that you ought to look up the information and be able, today, to tell us exactly what you paid for it?

Mr. WOODNER. No, I don't believe it occurred to me that that was the purpose of the question. Had the request been made specifically, I would have been glad to look it up.

The CHAIRMAN. I don't know how I could be any more specific than I just was. If you want us to get out the executive session, we were just as specific as humanly possible. We said "How much did you pay for the stock?"

Mr. WOODNER. The request has been made and I answered in the same fashion I did, then, I would have been happy to give it to you.

The CHAIRMAN. It seems strange to me that a man couldn't remember, but go ahead.

Mr. SIMON. Is one of the Shipley Corp. section 608 projects Fayette Court, Inc.?

Mr. WOODNER. Yes.

Mr. SIMON. Where is that located?

Mr. WOODNER. In Alexandria.

Mr. SIMON. Virginia?

Mr. WOODNER. Virginia.

Mr. SIMON. How large a project is it?

Mr. WOODNER. Fifty-one apartments.

Mr. SIMON. Does Fayette Court, Inc., own the land on which the building is situated?

Mr. WOODNER. I believe so.

Mr. SIMON. What was the amount of the FHA insured mortgage on Fayette Court, Inc.?

Mr. WOODNER. \$419,400.

Mr. SIMON. What was the cost of construction of that project?

Mr. WOODNER. \$398,813.

Mr. SIMON. Is another of the Shipley Corp.'s section 608 projects Fenwood, Section A, Inc.?

Mr. WOODNER. Yes.

Mr. SIMON. And Sections B, C and D, Inc., are three other projects?

Mr. WOODNER. Yes.

Mr. SIMON. Where are those four projects located?

Mr. WOODNER. In Valley Stream, Long Island, N. Y.

Mr. SIMON. How many units are in those four projects?

Mr. WOODNER. In total, I would say roughly 140 or so.

Mr. SIMON. Does each of those corporations own the land on which the building is situated?

Mr. WOODNER. It does.

Mr. SIMON. What was the amount of the FHA mortgage in Section A, Inc.?

Mr. WOODNER. \$757,600.

Mr. SIMON. Section B, Inc.?

Mr. WOODNER. \$1,026,100.

Mr. SIMON. Section C?

Mr. WOODNER. \$721,500.

Mr. SIMON. Section D?

Mr. WOODNER. \$1,269,600.

Mr. SIMON. What was the actual cost of construction of Section A?

Mr. WOODNER. \$615,345.

Mr. SIMON. Section B?

Mr. WOODNER. \$833,492.

Mr. SIMON. Section C?

Mr. WOODNER. \$585,024.

Mr. SIMON. Is another of the Shipley Corp.'s section 608 projects Inwood Corp.?

Mr. WOODNER. Yes, it is.

Mr. SIMON. I am sorry, I didn't ask you the cost of Section D.

Mr. WOODNER. No, I don't believe you did. The cost on Section D was \$1,031,207.

Mr. SIMON. Where is the Inwood Corp. project located?

Mr. WOODNER. The Inwood project is located in the southeast section of Washington, D. C.

Mr. SIMON. How many units?

Mr. WOODNER. 190 units.

Mr. SIMON. Does it own the land on which the building is situated?

Mr. WOODNER. It does.

Mr. SIMON. And what was the amount of the mortgage?

Mr. WOODNER. \$1,233,000—no, I am sorry. The amount of the mortgage was \$1,447,000.

Mr. SIMON. And the actual cost of construction?

Mr. WOODNER. \$1,233,105.

Mr. SIMON. Manor Park Apartments, sections 1 and 2; is that another Shipley project?

Mr. WOODNER. Yes. Manor Park is another Shipley project.

Mr. SIMON. Where it is located?

Mr. WOODNER. It is in or outside of Wilmington, Del. I believe it is in New Castle, Del.

Mr. SIMON. I have it here as one project, but actually, I take it, section 1 and section 2 are two separate corporations?

Mr. WOODNER. They are two separate corporations, contiguous, both making up the Manor Park project.

Mr. SIMON. How many units are in the two projects combined?

Mr. WOODNER. 372 units.

Mr. SIMON. What is the amount of the mortgage?

Mr. WOODNER. \$2,678,400.

Mr. SIMON. What was the actual cost of construction?

Mr. WOODNER. \$2,668,117.

Mr. SIMON. And the land, again, is included in the assets of the corporation, the sponsoring corporation?

Mr. WOODNER. The land is included.

Mr. SIMON. Is the Terrace Corp. another section 608?

Mr. WOODNER. Terrace Corp. is another project.

Mr. SIMON. Where is it located?

Mr. WOODNER. That is also located in the Southeast section of Washington, D. C.

Mr. SIMON. What was the mortgage?

Mr. WOODNER. The mortgage was \$772,000.

Mr. SIMON. And the actual cost of construction?

Mr. WOODNER. \$731,477.

Mr. SIMON. And the land is again in the corporation?

Mr. WOODNER. The land is included in that particular corporation.

Mr. SIMON. Is Shipley Park Corp. another?

Mr. WOODNER. Shipley Park Corp. is another.

Mr. SIMON. Where is it located?

Mr. WOODNER. That is also located in Washington, D. C., in the Southeast section of Washington.

Mr. SIMON. What was the amount of the mortgage?

Mr. WOODNER. \$2,010,600.

Mr. SIMON. The actual cost of construction?

Mr. WOODNER. \$1,669,873.

Mr. SIMON. Mr. Woodner, the nine projects we have discussed so far have subsequently all been sold by you; is that right?

Mr. WOODNER. I believe they have been; yes.

Mr. SIMON. And I take it that you got a substantial profit on the sale of those projects?

Mr. WOODNER. I believe we have; yes.

The CHAIRMAN. What was the substantial profit?

Mr. WOODNER. I would say roughly about \$900,000. I don't have the exact calculation, but knowing the approximate price for each of them——

Mr. SIMON. The remaining 15 projects we are about to discuss, you still own; is that right?

Mr. WOODNER. Yes. I wanted to make clear that these particular projects we have discussed up to now are no longer part of the Shipley Corp. We sold them.

The CHAIRMAN. You sold the stock?

Mr. WOODNER. We sold the stock and in one case I believe the purchasers did not want to buy the stock, and they had to have the name changed so they could buy——

The CHAIRMAN. In any event, you sold the stock?

Mr. WOODNER. That is right; and we have no interest in them at the moment.

The CHAIRMAN. And you sold them at approximately \$900,000 profit?

Mr. WOODNER. Yes, sir.

Senator LEHMAN. Were they sold in one package or were they sold separately?

Mr. WOODNER. They were sold separately, but 2 of these were sold to 1 particular group. At different times, however.

Mr. SIMON. Is Columbia Heights Section 4, Inc., another Shipley project?

Mr. WOODNER. It is.

Mr. SIMON. I notice the word "Section 4" in the title. Is there a 1, 2, and 3?

Mr. WOODNER. Yes; there are sections 1, 2, and 3 in that particular group.

Mr. SIMON. Are they section 608 projects?

Mr. WOODNER. They are.

Mr. SIMON. Why didn't we get information on them in the list that we were furnished?

Mr. WOODNER. Perhaps the circumstances by which we came about to build and own the project might explain that.

Mr. SIMON. What is the circumstance?

Mr. WOODNER. Well, the circumstances are these: A certain landowner in Virginia——

Mr. SIMON. Who is that?

Mr. WOODNER. A certain landowner.

The CHAIRMAN. Landowner?

Mr. WOODNER. Landowner in Virginia.

Mr. SIMON. Who was that?

Mr. WOODNER. I don't know his name exactly, but it might become apparent as I go along, it might criss-cross with some information you have from other sources. He had developed four sections to a project which he had projected there. I believe that one of the sections in the early portion of the section 608 was developed as a cooperative project. That was immediately after the war, when there was a certain flurry about cooperative projects and ownership.

The other two sections were developed as two separate projects. The fourth project he had sponsored and presented to the FHA, but

through choice or inability, or for any other reason, he had chosen not to go forward, himself. We were approached by brokers, asking if we would be interested in buying the plans, specifications, and all the appurtenances necessary to it being a project.

We surveyed the area and decided, while the plans weren't very good, the location was fair, and that we seemed to like to build these projects, and we bought the project.

We subsequently carried out the same number of units in that particular project. We changed the plans and improved them considerably, and any inspection of the three sections in relation to ours will demonstrate that.

The CHAIRMAN. But you did build them?

Mr. WOODNER. Yes.

The CHAIRMAN. You did get the FHA commitment?

Mr. WOODNER. Yes.

The CHAIRMAN. And you did build them?

Mr. WOODNER. We did build them.

The CHAIRMAN. What was the gentleman's name that you refer to?

Mr. WOODNER. I believe it is Hoge, I believe.

The CHAIRMAN. Did you meet with him?

Mr. WOODNER. No, I may have met with his son.

The CHAIRMAN. This was handled through a third party, was it?

Mr. WOODNER. A broker brought the package to us and I believe we met at the closing, or it was handled by one of my assistants. But I do know this, I was very much——

Mr. SIMON. Did you own the stock in the sponsoring corporation, Mr. Woodner?

Mr. WOODNER. In the——

Mr. SIMON. In 1, 2, and 3?

Mr. WOODNER. No, sir.

Mr. SIMON. Did you have any connection with 1, 2, and 3?

Mr. WOODNER. None.

Mr. SIMON. The only reason you were interested in 4 is that you bought 4 as a going project?

Mr. WOODNER. We bought 4 not as a going project, but a project that could be made going.

The CHAIRMAN. But you had no connection with 1, 2, and 3?

Mr. WOODNER. No connection whatsoever.

The CHAIRMAN. Who did build it—Mr. Hoge?

Mr. WOODNER. I believe he built 2 of the sections and I believe he had a contractor build 1. Mr. Hoge was not a real builder.

Mr. SIMON. What was the amount of the mortgage on your section 4?

Mr. WOODNER. \$976,500.

Mr. SIMON. What was the cost of construction?

Mr. WOODNER. \$889,390.

Mr. SIMON. \$889,000 or \$899,000?

Mr. WOODNER. I have \$889,000 on my sheet; \$889,390.

Mr. SIMON. Is Jonathan Woodner, Inc., another Shipley Corp. section 608?

Mr. WOODNER. Jonathan Woodner, Inc., is another.

Mr. SIMON. Where is it located?

Mr. WOODNER. It is located in the northeast corner of Washington. Actually at the very corner of the District.

Mr. SIMON. What was the amount of the mortgage there?

- Mr. WOODNER. \$200,000.
- Mr. SIMON. And the amount of the actual construction cost?
- Mr. WOODNER. \$169,822.
- Mr. SIMON. Where is Columbia Heights, Section 4 located?
- Mr. WOODNER. I believe it is in Arlington, Va. I believe it is in the section along Arlington Boulevard, I believe, or Columbia Pike, rather.
- Mr. SIMON. Is Ruth Woodner, Inc., another Shipley Corp. section 608?
- Mr. WOODNER. Yes, it is.
- Mr. SIMON. Where is it located?
- Mr. WOODNER. That is contiguous to Jonathan Woodner, Inc., in the northeast corner of Washington, D. C.
- Mr. SIMON. What was the mortgage there?
- Mr. WOODNER. \$137,000.
- Mr. SIMON. And the amount of the construction cost?
- Mr. WOODNER. \$116,489.
- Mr. SIMON. Is University Hills, Inc., another?
- Mr. WOODNER. Yes.
- Mr. SIMON. Where is it located?
- Mr. WOODNER. In Prince Georges County, Md., near the University of Maryland.
- Mr. SIMON. What was the mortgage there?
- Mr. WOODNER. \$2,630,000.
- Mr. SIMON. The actual construction cost?
- Mr. WOODNER. \$2,084,940.
- Mr. SIMON. In all of the projects that we have had so far, is the land owned by the sponsoring corporation?
- Mr. WOODNER. Yes, I would say so.
- Mr. SIMON. Is Crestwood Lake Apartments, section 1, another Shipley project?
- Mr. WOODNER. The stock is owned by Shipley Corp.
- Mr. SIMON. Where is that located?
- Mr. WOODNER. That is located in Yonkers, N. Y.
- Mr. SIMON. How many units?
- Mr. WOODNER. 269.
- Mr. SIMON. What is the amount of the mortgage there?
- Mr. WOODNER. \$2,621,500.
- Mr. SIMON. What was the actual construction cost?
- Mr. WOODNER. \$2,182,109.
- Mr. SIMON. Who owns the land?
- Mr. WOODNER. Crestwood Lake, Section 1, Holding Corp.
- Mr. SIMON. Who is the stockholder of Crestwood Lake, Section 1, Holding Corp.?
- Mr. WOODNER. The owner of the stock is Shipley Corp.
- Mr. SIMON. It is another subsidiary?
- Mr. WOODNER. Yes.
- Mr. SIMON. It paid \$30,000 for the ground?
- Mr. WOODNER. I would say approximately, on a proration.
- Mr. SIMON. After the FHA commitment was obtained, did that holding corporation mortgage the land?
- Mr. WOODNER. It did.
- Mr. SIMON. And how much was the mortgage?
- Mr. WOODNER. \$94,500.

- Mr. SIMON. Is section 2 adjacent to section 1?
- Mr. WOODNER. Section 2 is. That is Crestwood Lake Apartments, Section 2.
- Mr. SIMON. What was the amount of the mortgage there?
- Mr. WOODNER. The amount of the mortgage is \$2,336,100.
- Mr. SIMON. The actual construction cost?
- Mr. WOODNER. \$2,527,105.
- Mr. SIMON. The cost of the land?
- Mr. WOODNER. \$31,429.
- Mr. SIMON. Who owns the land?
- Mr. WOODNER. Crestwood Lake, Section 2, Holding Corp.
- Mr. SIMON. Who owns the stock in the holding corporation?
- Mr. WOODNER. Shipley Corp.
- Mr. SIMON. What was the mortgage put on the land?
- Mr. WOODNER. \$99,000.
- Mr. SIMON. Is Huntwood Corp. another?
- Mr. WOODNER. Huntwood Corp. is another. It is built for colored occupancy.
- Mr. SIMON. Where is it located?
- Mr. WOODNER. In the Northeast section of Washington, D. C.
- Mr. SIMON. What was the mortgage?
- Mr. WOODNER. \$1,217,750.
- Mr. SIMON. What was the actual construction cost?
- Mr. WOODNER. \$1,501,979.
- Mr. SIMON. Who owns the land?
- Mr. WOODNER. Just Corp.
- Mr. SIMON. Who owns the stock of Just Corp.?
- Mr. WOODNER. Shipley Corp.
- Mr. SIMON. What was the cost of the land?
- Mr. WOODNER. \$29,764.
- Mr. SIMON. What is the mortgage on the land?
- Mr. WOODNER. \$49,250.
- Mr. SIMON. Is Swifton Village another?
- Mr. WOODNER. Yes.
- Mr. SIMON. There are five sections?
- Mr. WOODNER. There are sections 1, 2, 3, 4, and 5.
- Mr. SIMON. They are five separate corporations?
- Mr. WOODNER. Five separate contiguous corporations.
- Mr. SIMON. Where are they located?
- Mr. WOODNER. Cincinnati, Ohio.
- Mr. SIMON. What was the mortgage on section 1?
- Mr. WOODNER. The mortgage on second 1 was \$974,500.
- Mr. SIMON. The cost of construction?
- Mr. WOODNER. \$1,035,390.
- Mr. SIMON. Who owns the land?
- Mr. WOODNER. Reading 1 Corp.
- Mr. SIMON. Who owns the stock of Reading 1?
- Mr. WOODNER. Shipley Corp.
- Mr. SIMON. What was the cost of the land?
- Mr. WOODNER. \$25,920.
- Mr. SIMON. What was the mortgage?
- Mr. WOODNER. \$88,850.

Senator LEHMAN. When you give the land not owned by the sponsor, and you give the amount of the mortgage on land not owned by sponsor, who held these mortgages?

Mr. SIMON. The cost of the land held by the sponsor is included in the first figure.

In the first column of the figures you had is the cost of the building and the cost of the land when the sponsor owned the land. The second figure is the cost of the land when the sponsor did not own the land. The total of the first two columns is the total of the cost of all the buildings and all the land. The only reason for separating the land costs in the bottom items is that the land in those cases was owned by a different corporation than the building was owned by but they were all subsidiaries of the same parent corporation.

The same is true with the last two columns. The first column is the amount of the mortgage, and in the first 13 cases the mortgage covered both the land and the buildings. In the remaining cases the FHA mortgage did not cover the land. It was only on the buildings, and there was a separate mortgage on the land.

Senator LEHMAN. An FHA mortgage?

Mr. SIMON. No, sir, but it is ahead of the FHA mortgage, Senator.

Senator LEHMAN. Who took the mortgage?

Mr. WOODNER. I will explain that if you would like me to.

Mr. SIMON. Who were the owners of these mortgages, Mr. Woodner?

Mr. WOODNER. The Teacher's Insurance & Annuity Association of New York, with the exception of Crestwood Lake Holding Corp., they were taken by the Drydock Savings Bank of New York.

Senator LEHMAN. These were commercial mortgages?

Mr. WOODNER. They were commercial mortgages placed upon the fee of the land, to which they have attached a lease with the corporation owning the building.

Mr. SIMON. They are a prior lien ahead of the FHA insured mortgage, aren't they?

Mr. WOODNER. I imagine so, legally. One is on the land and the other is on the building, but probably the legal interpretation—I am getting into legal concepts here that I don't understand. One mortgage is on the land. Another is on the building that rests on the land.

The CHAIRMAN. The mortgage on the land comes ahead of the mortgage on the building?

Mr. WOODNER. Not necessarily.

The CHAIRMAN. Ask your attorney if that isn't true?

Mr. SIMON. If there is ever a default in the payments due on the mortgage on the land, he can foreclose and take the land and the buildings, unless FHA steps in and pays over the amount of the mortgage?

Mr. WOODNER. No, I believe the FHA would have the right to pay the rent.

Mr. SIMON. I say, if there is a default, FHA could step in and pay the mortgage interest.

Mr. WOODNER. Yes, they could pay the rent.

Mr. SIMON. But if nobody pays the mortgage interest, on the mortgage on the land, the holder of that mortgage could foreclose and take over the land and buildings.

Mr. WOODNER. If no one paid there would be probably first myself, if I failed, and then probably the mortgagee, who may fail in doing so, and finally the FHA may fail in doing so.

The CHAIRMAN. Did you enter into a repurchase agreement with FHA in each instance here, where you kept title to the land, that if they did have to repossess, that they would pay you so much for the land?

Mr. WOODNER. I believe the standard lease form gives them the right to repossess at the stated value of the land.

The CHAIRMAN. What was the stated value in each instance here?

Mr. SIMON. Is it true, Mr. Woodner, that your mortgages are all 80 percent of the FHA value?

Mr. WOODNER. No, that is not true.

The CHAIRMAN. Please answer my question: If FHA has to repossess these buildings, how much do they have to pay you for the land?

Mr. WOODNER. Crestwood Holding Corp., 1, \$105,000.

The CHAIRMAN. For No. 2.

Mr. WOODNER. \$110,000.

The CHAIRMAN. Huntwood Corp.?

Mr. WOODNER. \$73,950.

The CHAIRMAN. Rock Creek Plaza, Inc.?

Mr. WOODNER. \$1,120,000.

The CHAIRMAN. Swifton Village, Section 1?

Mr. WOODNER. \$104,544.

The CHAIRMAN. Section 2?

Mr. WOODNER. \$148,104.

The CHAIRMAN. Section 3?

Mr. WOODNER. \$168,516.

The CHAIRMAN. Section 4?

Mr. WOODNER. \$162,454.

The CHAIRMAN. Section 5?

Mr. WOODNER. \$364,076.

The CHAIRMAN. Now take Rock Creek Plaza. How much rent—is it a 99-year lease?

Mr. WOODNER. May I qualify this a little bit: There is a certain amount of amortization being paid against those loans and it is probably less than that now.

The CHAIRMAN. What is the 99-year yearly lease on Rock Creek Plaza, Inc.?

Mr. WOODNER. There are two sections to that.

The CHAIRMAN. What is the total of both?

Mr. WOODNER. The total of both is—I believe it is 4 or 4 and a quarter percent.

The CHAIRMAN. What is the total in dollars?

Mr. WOODNER. The rent?

The CHAIRMAN. Yes.

Mr. WOODNER. At 4 percent, it is \$44,800 for both sections.

The CHAIRMAN. For both sections?

Mr. WOODNER. For both sections.

The CHAIRMAN. \$44,000 a year for 99 years?

Mr. WOODNER. For 99 years.

The CHAIRMAN. Ninety-one, or ninety-nine?

Mr. WOODNER. Ninety-nine on these and 75 on the Wherry projects.

Now I think there was another question asked which I failed to answer, which I would be very happy to. The question was the percentage of mortgage that obtained on each of these loans and I think it might be significant to explain what they were.

Mr. SIMON. The percentages.

Mr. WOODNER. I will give the percentages and a slight history of the thing.

With reference to Crestwood 1, there is a 90 percent loan.

With reference to Section 2, a 90 percent loan.

With reference to Huntwood, I don't know the exact figure, but I think it was around 66 $\frac{2}{3}$ or 65 percent.

With reference to Rock Creek, that had two stages to it. We originally had a 80 percent loan, and then about a year and a half or 2 years ago, when we were going through some financial stress, we prevailed upon the mortgagee to increase its loan to an 85 percent loan, by giving a slightly higher rate of interest. That applied as well to Swifton Village—the five Swifton leaseholds, but not to Huntwood, nor to the Crestwood Lakes, so you might say originally there was a 90 percent mortgage on the fee of the Crestwoods. There was approximately a 65 percent lease or mortgage on the fee of Huntwood, and now there is approximately 85 percent loan against the fee of the remaining tracts.

Mr. SIMON. Mr. Woodner, what was the cost of construction of Swifton Village No. 2?

Mr. WOODNER. Would you want the mortgage first?

Mr. SIMON. All right.

Mr. WOODNER. The mortgage was \$1,402,800.

Mr. SIMON. Cost?

Mr. WOODNER. \$1,490,053.

Mr. SIMON. Who owns the land?

Mr. WOODNER. Reading Tool Corp.

Mr. SIMON. Is that a subsidiary of Shipley?

Mr. WOODNER. It is.

Mr. SIMON. How much did it pay for it?

Mr. WOODNER. \$30,330.

Mr. SIMON. What is the mortgage?

Mr. WOODNER. \$125,880.

Mr. SIMON. What was the mortgage on Section 3?

Mr. WOODNER. The mortgage on the building?

Mr. SIMON. Yes.

Mr. WOODNER. \$2,039,000.

Mr. SIMON. Cost?

Mr. WOODNER. \$2,165,846. The cost of the building was \$2,165,846.

Mr. SIMON. The cost of the land?

Mr. WOODNER. \$149,835.

Mr. SIMON. And on the mortgage?

Mr. WOODNER. \$143,200—

The CHAIRMAN. You said the land cost you \$149,000 and the mortgage was \$143,000?

Mr. WOODNER. That is because there is a large main artery street put through in front of that section. It is an 80-foot street.

The CHAIRMAN. But you put that in as a cost of construction of the building?

Mr. WOODNER. No, I did not. That is against the land.

Senator LEHMAN. May I ask you a question? Mr. Simon, some of these figures are not quite clear to me.

What was the mortgage on Crestwood Lake Apartments, Section 2?

Mr. WOODNER. The mortgage was \$2,336,100.

Senator LEHMAN. What was the cost of the structure?

Mr. WOODNER. \$2,527,105.

Senator LEHMAN. What was the mortgage on Huntwood Corp.?

Mr. WOODNER. \$1,217,750.

Senator LEHMAN. What was the cost?

Mr. WOODNER. \$1,501,979.

Senator LEHMAN. What was the cost of Rock Creek Plaza?

The CHAIRMAN. We haven't been into that one yet. That is Woodner. We want to get into that later.

Senator LEHMAN. What is the amount of the mortgage?

Mr. WOODNER. The original mortgage was \$9,984,300. That, incidentally, is 2 mortgages, one of \$5 million and one of \$4,984,300.

Senator LEHMAN. What was the actual cost of that structure?

Mr. WOODNER. Collectively it was \$11,162,476.

Senator LEHMAN. In that case the cost of the project was higher than the amount of the mortgage?

Mr. WOODNER. Considerably.

Mr. SIMON. Mr. Woodner, on Section 4, what was the mortgage?

Mr. WOODNER. Swifton Village?

Mr. SIMON. Yes.

Mr. WOODNER. \$1,608,000.

Mr. SIMON. And the cost?

Mr. WOODNER. \$1,708,084.

Mr. SIMON. \$708—

Mr. WOODNER. \$1,708,084.

Mr. SIMON. Who owns the land?

Mr. WOODNER. You are talking about No. 4 now?

Mr. SIMON. Yes.

Mr. WOODNER. Ian Woodner. Myself.

Mr. SIMON. What was your cost?

Mr. WOODNER. \$78,696.

Mr. SIMON. The mortgage?

Mr. WOODNER. \$138,080.

Mr. SIMON. Section 5, mortgage.

Mr. WOODNER. \$3,705,000.

Mr. SIMON. The cost?

Mr. WOODNER. \$3,933,862.

Mr. SIMON. Who owns the land?

Mr. WOODNER. Ian Woodner. Myself.

Mr. SIMON. What was the cost?

Mr. WOODNER. \$193,400.

Mr. SIMON. And the mortgage?

Mr. WOODNER. \$308,460.

Mr. SIMON. Do you happen to have, Mr. Woodner, the total cost of these 24 section 608 projects?

Mr. WOODNER. We have them on two Chanute Fields.

Mr. SIMON. Those are not owned by Shipley?

Mr. WOODNER. Well, actually they are. It was a book transaction, and I believe the Shipley Corp. ventured into many transactions with reference to them.

Mr. SIMON. Do you have the total figure of the 24 section 608's?

Mr. WOODNER. The total including that.

Mr. SIMON. The total of the 24 section 608's, Mr. Woodner.

Mr. WOODNER. I don't have it.

Mr. SIMON. Do you have the total figure of the cost of the land in these 10 projects where you own the land personally? I am sorry—where the land is not owned by Shipley. I am sorry, again:

Where the land is not owned by the sponsoring corporation, do you know, Mr. Woodner, whether the total cost of the land and the buildings in these 24 projects is approximately \$800,000 less than the total mortgages on the 24 projects?

Mr. WOODNER. I haven't done the calculation but it can be done.

Mr. SIMON. Now going to Rock Creek Plaza, that is the Woodner Apartment or the Woodner Hotel out there?

Mr. WOODNER. The Woodner Apartment.

Mr. SIMON. How many of the rooms in that building are rented on a transient basis?

Mr. WOODNER. About 238.

Mr. SIMON. And how many rooms are there?

Mr. WOODNER. In the 238?

Mr. SIMON. How many units are there?

Mr. WOODNER. In the total structure?

Mr. SIMON. Yes.

Mr. WOODNER. In the total structure there are 1,139 living units.

Mr. SIMON. Do you advertise in the newspapers as Woodner Hotel?

Mr. WOODNER. No. We attempt not to.

The CHAIRMAN. What do you mean you attempted not to?

Mr. WOODNER. Well, as I say, we don't advertise a hotel. We advertise as the Woodner.

Mr. SIMON. I show you a photograph, Mr. Woodner, and ask you whether that is a photograph of the Woodner Apartment Building or hotel or whatever you want to call it?

Mr. WOODNER. That is a photograph taken during construction.

Mr. SIMON. Does that accurately portray the project?

Mr. WOODNER. At that date of development, I would say yes.

Mr. SIMON. You will notice a line drawn through the middle of the picture. Does that indicate the separation between the two buildings?

Mr. WOODNER. I would say yes.

(The photograph referred to will be found on p. 1035.)

Mr. SIMON. I show you a diagram and ask you if that is an accurate diagram of the property and whether, again, the line indicates the separation between the two buildings.

Mr. WOODNER. I would say yes.

(The diagram referred to will be found on p. 1036.)

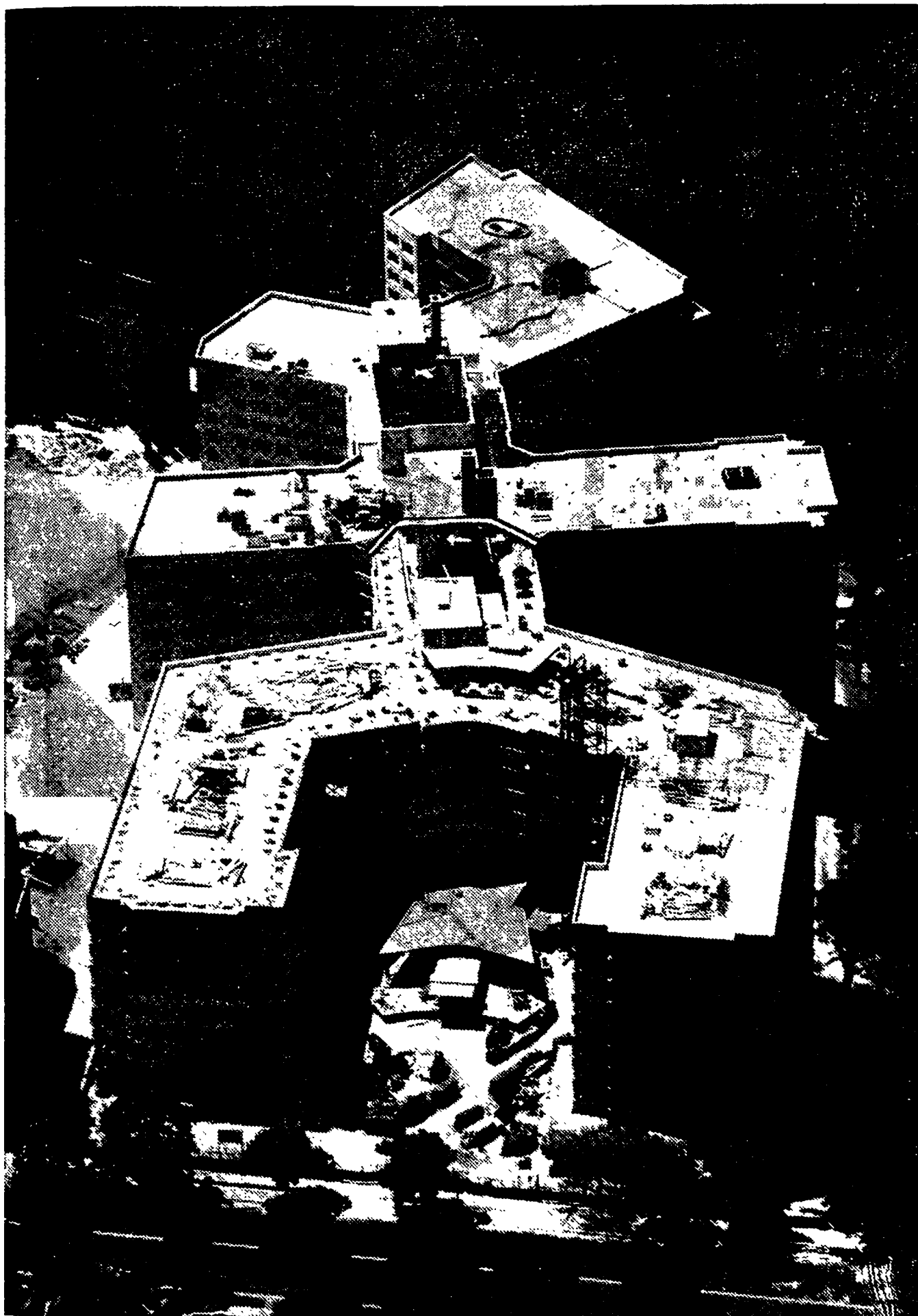
Mr. SIMON. Is the space between the 2 buildings 1 inch?

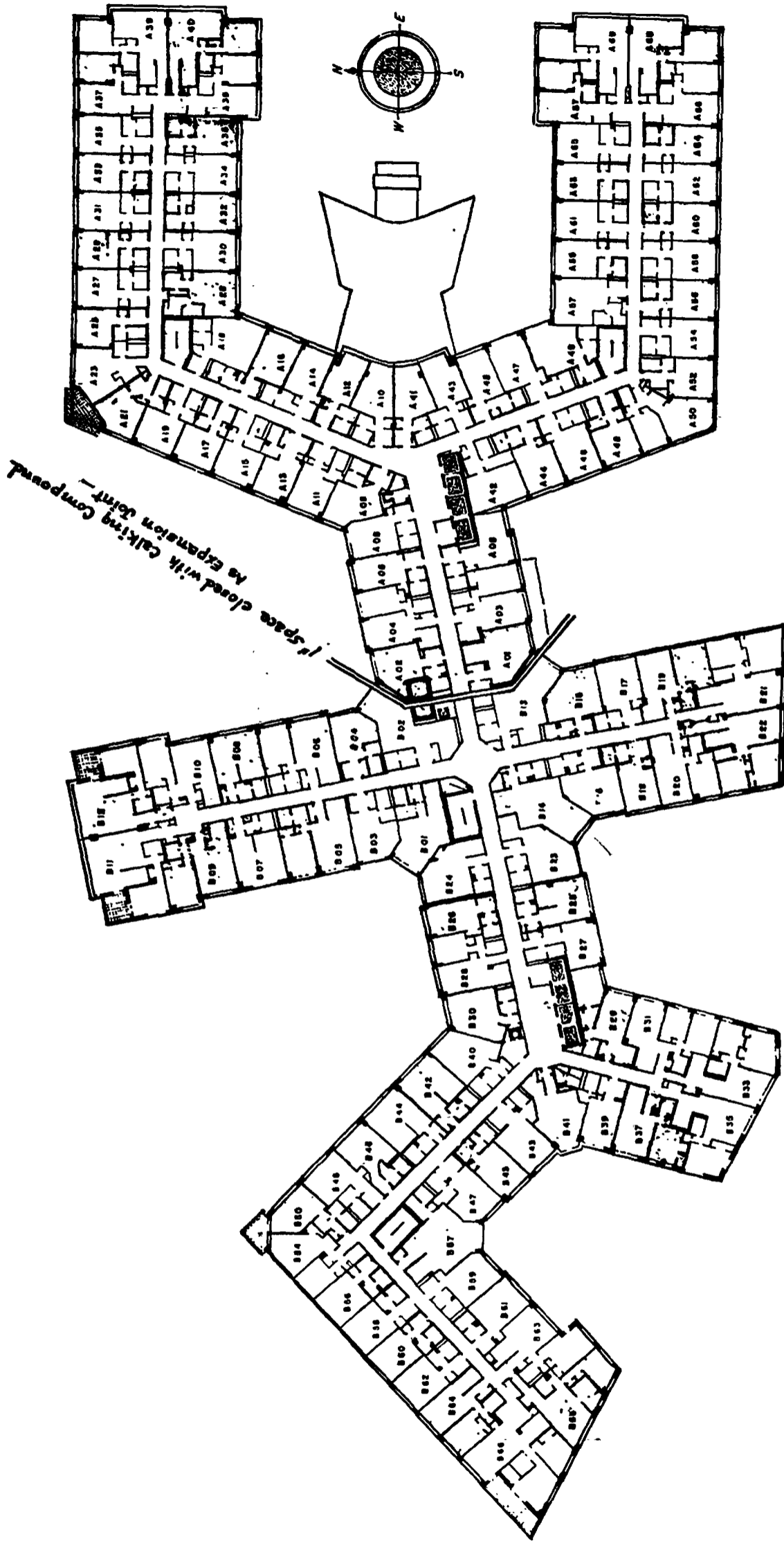
Mr. WOODNER. I would say about an inch, yes.

Mr. SIMON. Is it filled with a caulking compound?

Mr. WOODNER. Yes, it is filled with a soft, caulking compound.

Mr. SIMON. Do I correctly understand there is a heating unit in each building but that each heating unit is capable of heating both buildings?





THE WOODNER
3636 16th Street, N.W.
Washington, D.C.

TYPICAL FLOOR PLAN

Mr. WOODNER. There are 2 heating units in each section—there is a tie-in—well, I will take them 1 at a time. If you want me to go into the total mechanical installation there.

Mr. SIMON. I want to know if the heating units in each building are capable of heating both buildings.

Mr. WOODNER. There is a tie-in where it can work either way.

The CHAIRMAN. The question is will either one of the heating units heat both buildings?

Mr. WOODNER. It can. It was done for the purpose of economy.

Mr. SIMON. Is the same thing true of the air-conditioning?

Mr. WOODNER. I believe so.

Mr. SIMON. Is there a corridor running through the project from one building to the other on each floor?

Mr. WOODNER. There is a corridor running through on each and every floor.

Mr. SIMON. Is the property operated as a single unit?

Mr. WOODNER. It is managed as a single unit. For purposes of efficiency, it is.

Mr. SIMON. I take it you knew that the statute provided no mortgage could be issued by the FHA Commissioner for more than \$5 million?

Mr. WOODNER. I did.

Mr. SIMON. Did you have any difficulties with FHA, in getting a \$9,500,000 mortgage on that project?

Mr. WOODNER. I didn't get a \$9,500,000 priority. I got two mortgages.

Mr. SIMON. \$9,984,000 was the final amount, and it was increased, near the end, wasn't it?

Mr. WOODNER. Yes. As I say, I have two mortgages totaling the approximate amount you mention.

Mr. SIMON. Was the fact that there were 2 mortgages and the fact that there is a 1-inch space filled by a calking compound, a means to get around the law and have a \$10 million mortgage, only making it two \$5 million mortgages.

Mr. WOODNER. No, I wouldn't say that was the reason for doing it. It permitted a better utilization of this particular given site.

Mr. SIMON. Wouldn't the site have been utilized just as well by one building?

Mr. WOODNER. I don't believe so.

Mr. SIMON. You think the fact that you have 2 separate buildings with a 1-inch space between them is a better utilization?

Mr. WOODNER. Much.

Mr. SIMON. Didn't you testify in executive session that if one section ever fell into the hands of an owner different than the ownership of the other section that they would have to manage them jointly?

Mr. WOODNER. I think economic reasons and wisdom would determine that.

Mr. SIMON. Determine that they would have to do it that way?

Mr. WOODNER. They wouldn't have to, but if they used their wisdom in any sense at all they would do that.

Mr. SIMON. They would operate them as one unit?

Mr. WOODNER. They would operate them, with relationship, perhaps not to one unit, but they have—what is it—

The CHAIRMAN. May I have the pictures there?

Don't you think it was a direct violation of the law that said you can only have \$5 million mortgage on 1 unit, when you constructed that building, as you did, there?

Mr. WOODNER. No.

Mr. SIMON. You do not think so?

Mr. WOODNER. I do not.

Mr. SIMON. Did you know of the law when you started the construction?

Mr. WOODNER. I did know the law; yes, sir.

Mr. SIMON. Did you get official approval from the very beginning to build that project and put a 1-inch space between the 2 buildings?

Mr. WOODNER. There was never an objection raised by anybody.

The CHAIRMAN. Never an objection?

Mr. WOODNER. Never an objection.

The CHAIRMAN. Didn't you put up \$12,000 in some way, in case FHA should have to repossess one or the other or both of these projects?

Mr. WOODNER. That was not an initial requirement.

The CHAIRMAN. Was it a requirement later?

Mr. WOODNER. It was a requirement brought up at the time of closing of one of the sections.

The CHAIRMAN. In the closing did you put up \$12,000?

Mr. WOODNER. It was a sum of \$10,000.

The CHAIRMAN. You did put up \$10,000?

Mr. WOODNER. There is \$10,000 held in escrow.

The CHAIRMAN. Then both you and FHA were conscious, then, that there might be a violation of the law; is that correct?

Mr. WOODNER. No.

The CHAIRMAN. Then what was the purpose of the \$10,000?

Mr. WOODNER. This came up at the final closing and I believe the issue was raised, not only on this project but some other project.

The CHAIRMAN. You said you put up \$10,000, for this project.

Mr. WOODNER. At the time of the final closing, the issue was raised.

The CHAIRMAN. Did you know when you started this project and made an application for a loan that you were going to build these buildings, exactly as they are built?

Mr. WOODNER. Yes, I did.

The CHAIRMAN. Did you know at that time that you were going to have a 1-inch space between the 2?

Mr. WOODNER. Yes, sir.

The CHAIRMAN. Did you know that the corridors were going to run from one to the other?

Mr. WOODNER. Yes, sir.

The CHAIRMAN. And that you were going to have two heating plants, each plant capable of heating the entire building?

Mr. WOODNER. For certain economy reasons.

The CHAIRMAN. Did you know when you made the application to FHA that this calking line that goes down, the red line that goes down and cuts one bathroom in two, would be there?

Mr. WOODNER. Well, with regard to that one bathroom, I will say this. That bathroom was a mistake built in during the process of construction and due to the fact we replanned certain units.

The CHAIRMAN. Do you not think it was a violation of the law?

Mr. WOODNER. I do not.

The CHAIRMAN. And you don't think the fact that you had to put up \$10,000 before final settlement was any indication that there had been at least an irregularity?

Mr. WOODNER. I don't believe so. As a matter of fact, I believe I could have made an issue of the thing at the time if I chose to.

The CHAIRMAN. What official in FHA gave you permission to do this?

Mr. WOODNER. Well, I would say they all did. There was no exception raised from any source.

The CHAIRMAN. You think they understood the law over at FHA?

Mr. WOODNER. I believe they did.

The CHAIRMAN. You don't think this was a violation of the law?

Mr. WOODNER. I do not think so.

The CHAIRMAN. And your testimony is that if FHA must repossess either one or the other of those units, that they can sell them to some third party and he can operate them efficiently, as units?

Mr. WOODNER. Yes, sir.

The CHAIRMAN. That is your testimony?

Mr. WOODNER. That is my testimony.

The CHAIRMAN. That is directly opposite to what you said in the executive session.

Mr. WOODNER. No, I said it would be wiser—the question here was, "could they," and I said yes.

The CHAIRMAN. Anything can be done, but can it be done economically.

Mr. WOODNER. I mean it could be designed, and it could be worked, without any question, but the wisdom of having these intercommunicating facilities—if you can take one moment I think it would be useful for me to explain it: like in all mechanical installations there comes a time when elevators might break down in one section. If they broke down in one section, and if you were in the normal building you would be stuck.

Here, you can walk through a corridor and take other group of elevators. The same would be true for your heating systems. If one broke down or needed repairs, and more particularly, Washington has a rather long fall and rather a long spring. In the spring, the heating system can run on one unit, or rather on the air conditioning, and in the fall, the heating system.

The management is much more efficient. There is another factor which is a very important one in the operation we discovered—

The CHAIRMAN. Do you think it was fair to permit you to do what you did and deny many, many other people in the United States—

Mr. WOODNER. It is not to my knowledge that they did deny anybody.

The CHAIRMAN. You don't know that?

Mr. WOODNER. I don't know. I do know, however, that there are other projects like this which preceded mine.

The CHAIRMAN. Are these two switchboards?

Mr. WOODNER. There is one central switchboard.

The CHAIRMAN. One switchboard for both sections?

Mr. WOODNER. There are two switchboards in the building. I will say that.

The CHAIRMAN. But only one of them in use?

Mr. WOODNER. Both of them are in use. One is used for the transient section and the other is used for the apartment section.

The CHAIRMAN. Now, tell us more about this bathroom.

Mr. WOODNER. It was a constructionary error.

The CHAIRMAN. Was there only one bathroom where the divider runs through?

Mr. WOODNER. Yes.

After our original plans in trying to get more efficient use of space, the builder on the job, or the architect made a mistake. They just planned the thing, and they just crossed the line, there. We did not discover it, however, until close to the final finaling out.

We did, however, go to the trouble of transferring the land from one parcel of land to the other, one giving up the other, and changing the legal description and exchanging all the legal descriptions of the land, in other words, to encompass that bathroom in the proper section.

The CHAIRMAN. Now, the Shipley Corp. owns 26—

Mr. WOODNER. I want to say one other thing about this, and it will probably explain why no exception was made to this. That there are two sections here. This is not the only one in the District and this is not the first one in the District. The pattern had been established in a previous project in the District of Columbia, here.

The CHAIRMAN. We know of no other one here in the District.

Mr. WOODNER. To my best recollection—I don't know the business of FHA.

The CHAIRMAN. You said there were others in the District. Give us the names of them.

Mr. WOODNER. I believe, and this is purely belief, now, that the Berkshire House on Massachusetts Avenue, has a similar contiguous arrangement.

The CHAIRMAN. We will check into it.

Any others?

Mr. WOODNER. I don't believe so in the District. I believe there are some others in other cities.

The CHAIRMAN. The Shipley Corp. of which you own 75 percent, your brother 18 percent, and your sister 6, own 24 corporations that we have been talking about, or 26, in which you secured FHA mortgages in the neighborhood of \$40 million.

If any one of those projects goes wrong, meaning that they are sour, as some people call it, the Shipley Corp. is behind all of them. In other words, the total wealth of all 26 of these corporations plus the Shipley Corp. is behind all of them?

Mr. WOODNER. I would not say it is behind them. It owned all the stock in these corporations.

The CHAIRMAN. My point is, if Huntwood Corp. should go sour, you could give that back to the FHA, could you not, without in any way affecting any of the others?

Mr. WOODNER. I believe that is the way the FHA is set up.

The CHAIRMAN. Is that the way the FHA set it up?

Mr. WOODNER. I believe they could make a separate corporation of each project.

The CHAIRMAN. FHA did not require that the Shipley ownership stand behind all of those projects?

Mr. WOODNER. I do not believe so.

The CHAIRMAN. You handled this on the basis that you have 26 projects. If 1 of them went sour, FHA would take it back and you keep the 25 good ones. If 2 more of them went sour, then FHA takes the 2 sour ones back and you keep the 23, is that right?

Mr. WOODNER. That would be possible, like in any other corporate structure, but may I go further to explain: One is the legal capacity to do it and the other is the desire of the individuals who have that capacity, to exercise it, or not. I may go on to explain—

The CHAIRMAN. You constructed these 26 projects, according to our records—the total cost of everything was \$788,000 less than the total proceeds from the mortgage. About \$800,000. Now in reality and under the law—

Mr. WOODNER. May I question that for a moment, sir?

The CHAIRMAN. Go ahead if you care to.

Mr. WOODNER. I don't know what sheet you are working with—

The CHAIRMAN. I am talking about the 26 section 608 projects, leaving out the Wherry. The total cost of the projects, of everything, was about \$800,000 less than the total proceeds of all the FHA mortgages. In round figures, that is about right, is it not?

Mr. WOODNER. Well I will tell you. Since talking to you last, Mr. Simon, we took into account the list I had given you in our corporations—we have taken into account builders' fees and architects' costs and since the discussion with you, we have made a new calculation removing builders' fees as an element of cost, to bring our total analysis, here to the actual dollar cost paid out, in actual dollars, for any form of the work, against the mortgages, so that in our costs there is no fee of any kind coming to us as a builders' or architects' fee.

The CHAIRMAN. Isn't it a fact that the total of the mortgages was about \$800,000 more than the total cost?

Mr. WOODNER. No.

Mr. SIMON. If you add up the figures that you gave us just 20 minutes ago, you will come up with the answer.

Mr. WOODNER. I have the figures right here.

Mr. ROWEN. We have the construction cost of the 24 projects, \$40,734,998.

The CHAIRMAN. What was the amount of the mortgage?

Mr. WOODNER. The amount of the mortgages in the similar projects were \$40,574,650, which would indicate that there was an excess of construction costs—

Mr. SIMON. What is the cost of the land in the 10 projects where the land is not in the corporation?

Mr. WOODNER. \$1,157,896.

The CHAIRMAN. What is the amount of the proceeds of the mortgage you got on the land?

Mr. WOODNER. \$2,260,000.

The CHAIRMAN. You have to add that \$1 million to it, too. Add that \$1 million to it, and what do you get?

Mr. WOODNER. \$680,000 difference.

The CHAIRMAN. Very well. I am not going to argue with you.

Didn't you know that the law said 90 percent of the cost—you estimated the cost, here. You said the cost was \$40,732,000. Now 90 percent of that would have given you a \$36 million figure in mort-

gages rather than approximately \$41 million. Didn't you know the law was 90 percent?

Mr. WOODNER. I believe I knew the law but I don't believe the law was as you interpreted it.

The CHAIRMAN. Didn't your lawyer say it was to be 90 percent of the estimated cost and that the FHA Commissioner must use every effort to arrive at actual cost?

Mr. WOODNER. Yes.

Mr. SIMON. How did he make such a big mistake on all these projects?

Mr. WOODNER. I believe the FHA law is 90 percent of the replacement cost.

The CHAIRMAN. And the law was amended in 1947 to say that that is true, but in estimating replacement costs, the Commissioner must arrive as closely as feasibly possible to the actual cost.

Mr. WOODNER. That is correct, but in that cost, there is an allowance for both architects' and builders' fees.

The CHAIRMAN. I am not going to argue with you. I just wanted to know if you knew. Here is a case where practically in every instance you received as much from the proceeds of the mortgage as the project costs and in many you received more. Whereas the law originally called for 90 percent of the cost. At least we instructed the FHA appraisers to arrive at the actual cost as close as was feasibly possible. And here are 24 projects, all of them with one concern, the Shipley Corp., they missed it by about—they missed the 90 percent by about 14 percent.

Senator LEHMAN. How much was that last?

The CHAIRMAN. By 14 percent.

Senator LEHMAN. You might be right but I can't follow that.

The CHAIRMAN. It was 90 percent of 100 so you start out with 10 and the overage was about 4 percent.

Senator LEHMAN. As I understand it, the total cost was about \$40 million. The overage would be about \$700,000.

The CHAIRMAN. The thing we are overlooking is that it was supposed to be 90 percent of the cost, so they missed that by 10 percent and then another 4. The overage over 90 percent is about 14.

Senator LEHMAN. The amount of the mortgages given would be only 3½ percent over the actual construction costs.

The CHAIRMAN. I am saying that the overage over 90 percent was about 14 percent. Over 100 percent it was about 4 percent.

Mr. WOODNER. May I say my interpretation of the law is, and I may be wrong, that the improvement of land, overall land costs, to a finished product, wasn't contemplated as pure raw land costs. I have heard the various views on all that and that is a matter for appraisers.

Mr. WINN. Senator, you have added \$1 million to the mortgage by including the money which came in as a result of mortgaging the fee and that would not have been taken into consideration by FHA in determining costs.

Mr. SIMON. Mr. Woodner, would any insurance corporation give you a mortgage on the fee far in excess of the cost of the land if you didn't have an FHA mortgage on the building?

Mr. WOODNER. Yes.

Mr. SIMON. Can I go out and get a piece of land today and get a mortgage on it for more than I paid for it?

Mr. WOODNER. If you contemplate building—you said FHA. I thought you referred particularly to FHA.

Mr. SIMON. You have to build a building on it, first?

Mr. WOODNER. Say you build a gas station where you have a lease for an oil company, and you have a piece of land. You would get an increment of value on that land.

Mr. SIMON. The security for the mortgage on the fee is not only the land, but also the leasehold and the building?

Mr. WOODNER. That is correct.

I just want to make one comment here, if I may: You will note the list of projects, here. You will find that the smallest project there was 24 units and the next one was, I believe 36 units and it gradually grew to a larger and larger group, due to our experience and capacity to increase. We have built things for colored occupancy, two very fine structures. We have built them in different periods of time, over a long period of time. We have built them in different areas of land, in other situations. We have built them in periods of war and periods of peace.

All of these projects have been built with the primary purpose of securing investment property for ourselves and they have been built well. The reason the group was sold as I have explained to you was because we ran into one project where we ran into a cost far exceeding the estimated costs of FHA, or ourselves, and that the reason we sold them was out of duress, rather than by choice.

Now the point I am trying to make here is over a long period——

The CHAIRMAN. We are going to get into that business with you.

Mr. WOODNER. I want to make one point, that our experience covered a wide range regionally in timing.

The CHAIRMAN. We are going to cover that in Chicago when we get into Chanute Field. That is another matter to be taken up later.

Let's get into these collections, because they are very interesting.

Mr. SIMON. In all your experience with FHA loans, how long did it take to get an application processed?

Mr. WOODNER. I would say it varies considerably depending upon the time and the pressure.

Mr. SIMON. What was the average time, in your experience?

Mr. WOODNER. Oh, about 3 or 4 or 5 months.

Mr. SIMON. When did you file the applications for the FHA mortgages on the Woodner?

Mr. WOODNER. I don't remember any exact date, but I imagine around February or the end of January.

Mr. SIMON. Were they both filed on the same day?

Mr. WOODNER. You have the copy there.

Mr. SIMON. I have copies of applications dated February 12, 1949. Is that the day they were filed?

Mr. WOODNER. Yes, that was the date on the application.

Mr. SIMON. I will be glad to show it to you and see if that refreshes your recollection.

I show you the FHA commitment and ask you whether it was issued on March 31, 1949.

Mr. WOODNER. Yes.

Mr. SIMON. Was that a pretty quick processing?

Mr. WOODNER. My recollection is fairly clear about that.

Mr. SIMON. It is pretty quick?

Mr. WOODNER. Yes, I would say it is quick. May I comment?

Mr. SIMON. Yes.

Mr. WOODNER. You will find, if you go through the FHA files during this period of time, that there were a great many projects processed and commitments issued on that particular date, or the date preceding it or the 2 days preceding it and we were one of many.

Mr. SIMON. You had to get this under the gun?

Mr. WOODNER. Yes, and we were one of many.

Mr. SIMON. And it was important to get it before March 31?

Mr. WOODNER. Because the law seemed to be expiring.

Mr. SIMON. Jonathan Woodner Co. built this building?

Mr. WOODNER. Yes.

Mr. SIMON. That is a construction company which is a subsidiary of Shipley?

Mr. WOODNER. It is a construction and management company, a subsidiary of Shipley.

Mr. SIMON. On February 23, 1949, was a check drawn by the Jonathan Woodner Co. to the order of Ruth Woodner, for \$10,000?

Mr. WOODNER. Yes.

Mr. SIMON. I ask you to look at the endorsement on the back of that check which says, "For deposit to the account of Ruth Woodner," and ask you if that is in the handwriting of Ruth Woodner?

Mr. WOODNER. My guess is that it is not in the handwriting of Ruth Woodner.

Mr. SIMON. Do you know whether it is in the handwriting of Ruth Woodner?

Mr. WOODNER. If I were asked to state specifically, I would say my best guess is that it is not.

I believe it is not.

The CHAIRMAN. Then we will ask you specifically. It is in her handwriting?

Mr. WOODNER. Well, not having been there, it is difficult for me to answer, but I pretty well would say that it is not.

Mr. SIMON. Let me go back a minute. At that time, Ruth Woodner was your wife?

Mr. WOODNER. Ruth Woodner was my wife.

Mr. SIMON. How long had you been married to her at that time?

Mr. WOODNER. About 6½ years, or so.

Mr. SIMON. But you are still not sure whether that is in her handwriting?

Mr. WOODNER. I would say pretty specifically it is not her handwriting.

Mr. SIMON. Actually, it is in the same handwriting as that of the person who made out the check, isn't it?

Mr. WOODNER. That is my guess.

Mr. SIMON. I show you 2 checks dated the very next day, February 24, 1949, payable to the order of Ruth Woodner, for \$5,000 each. I ask you if those checks aren't also endorsed to her account, in the same handwriting as the person who made out the check?

Mr. WOODNER. Yes, I would say that similar circumstances surround both.

Mr. SIMON. And is the same thing true of a check I show you dated March 23, 1949, in the amount of \$10,000?

Mr. WOODNER. I would probably say the same is true.

Mr. SIMON. I show you a check dated March 15, 1949, in the amount of \$6,000 and ask you whether the check is in its entirety made out in your handwriting, including the endorsement on the back?

Mr. WOODNER. That is probably my handwriting.

Mr. SIMON. Mr. Woodner, those 5 checks total \$36,000. Were they deposited in an account, in the Corn Exchange Bank of New York, of Ruth Woodner?

Mr. WOODNER. I see two bank stamps, here.

Mr. SIMON. Do you know whether they were deposited in the Corn Exchange Bank to the account of Ruth Woodner?

Mr. WOODNER. I don't know exactly.

Mr. SIMON. Were they deposited to the account of Ruth Woodner in any bank?

Mr. WOODNER. I believe so; yes.

Mr. WOODNER. In what bank?

Mr. WOODNER. I am trying to read the name underneath. I can see "of New York," and I can see something else.

Mr. SIMON. How many bank accounts did she have in 1949?

Mr. WOODNER. I believe it was in the Corn Exchange Bank. Since I cannot see the stamp on the back, I cannot say.

Mr. SIMON. Did she have any other bank accounts in 1949?

Mr. WOODNER. Not to my recollection.

Mr. SIMON. Did Ruth Woodner know that this \$36,000 had been deposited in her bank account?

Mr. WOODNER. From time to time she was advised that this procedure was being followed; yes.

Mr. SIMON. My question was whether Ruth Woodner knew that that this specific \$36,000 had ever been deposited in her bank account?

Mr. WOODNER. I can't say whether she knew.

Mr. SIMON. You don't know whether she knew it had been deposited in her account?

Mr. WOODNER. I don't know whether she knew this specific \$36,000 was, but I will say this, that in general, she knew the nature of our business and knew the nature of our transactions.

Mr. SIMON. My question relates to this \$36,000, Mr. Woodner.

Mr. WOODNER. I do not know whether she knew.

Mr. SIMON. Did you have authority to draw checks on that account?

Mr. WOODNER. I did.

Mr. SIMON. Whose name would you sign to a check that you drew on that account?

Mr. WOODNER. On which account?

Mr. SIMON. Ruth Woodner's account at the Corn Exchange Bank.

Mr. WOODNER. If I drew the check, I would probably sign Ruth's name.

Mr. SIMON. In other words, you did not sign the check "Ruth Woodner, by Ian Woodner," but you merely signed her name, is that right?

Mr. WOODNER. Yes.

Mr. SIMON. Was your signature on file at the bank?

Mr. WOODNER. I believe so.

Mr. SIMON. Was your handwriting of her signature on file at the bank?

Mr. WOODNER. I don't believe so.

Mr. SIMON. So that you just wrote her name on the check, in your handwriting, is that right?

Mr. WOODNER. I may have.

Mr. SIMON. Did you?

Mr. WOODNER. I can say, if I saw the check.

Mr. SIMON. Did you withdraw from the Corn Exchange Bank the proceeds of these \$36,000?

Mr. WOODNER. No, I did not.

Mr. SIMON. What was the purpose for which this \$36,000 was paid by the Woodner Co. to Ruth Woodner?

The CHAIRMAN. In the course of 3 weeks, wasn't it?

Mr. SIMON. The 2 checks are on February 23—1 check on February 23, 1949, for \$10,000; 2 on February 24, for \$5,000 each; 1 on March 15, for \$6,000, and 1 on March 23 for \$10,000. There is a total of \$36,000 in a month.

What was the purpose for which those checks were drawn, Mr. Woodner?

Mr. WOODNER. That check and other similar checks like it?

Mr. SIMON. These checks, if you please.

Mr. WOODNER. Were issued by the Jonathan Woodner Co. for deposit to the personal account of Ruth Woodner. From time to time, my accounting staff and the other employees connected with interpreting the FHA regulations would advise me that in order that a sponsor or a member of my family be an acceptable sponsor to a project, it was necessary that certain liquid capital be available.

Mr. SIMON. Are you saying that in order for Ruth Woodner to be an acceptable FHA sponsor, she had to have some assets so these moneys were paid to her for that purpose?

Mr. WOODNER. These moneys were part of the total liquid assets which the FHA felt was necessary.

Mr. SIMON. Were they a loan to her, a gift to her, an advance to her, or what were they?

Mr. WOODNER. I was advised that I had the ability to write these checks.

Mr. SIMON. Who advised you? Do you mean physical ability?

Mr. WOODNER. The physical ability and probably authority. And authority, probably.

The CHAIRMAN. Had the authority probably?

Mr. WOODNER. And the ability probably covers the authority.

Mr. SIMON. Nobody is questioning your authority to spend Jonathan Woodner funds, but what we are trying to find out is what they were spent for.

Mr. WOODNER. They were charged to an open, running account which each of the members of my family had—

Mr. SIMON. I show you a ledger sheet which your accountant has produced for us headed "Ruth Woodner," and ask you if that is the open, running account of Ruth Woodner, on the books of the Jonathan Woodner Co.?

Mr. WOODNER. It is, but may I complete my reply to your question, first? I didn't complete the answer to the question.

Mr. SIMON. You said these advances were credited to an account.

Mr. WOODNER. To a running account which each of the members of our—

Mr. SIMON. Now, I have here—

Senator LEHMAN. Have you finished your question?

Mr. WOODNER. I have not quite finished my statement. This is a rather confusing subject, as you know. We went through this last night and it is a complicated thing, as I explained.

The CHAIRMAN. It isn't very complicated. It is very simple.

Mr. WOODNER. It may be complicated to understand. I thought it was simple, but the questions seem to be difficult to understand. It is simple to me.

The CHAIRMAN. The question we want to have the answer to is, For what purpose was that \$36,000 in checks issued in a 30-day period to Ruth Woodner?

Mr. WOODNER. The reason the question is not a simple one is because checks are issued for a multiplicity of reasons.

The CHAIRMAN. These are all in round figures: \$5,000, \$5,000, \$10,000, and in the place over here where they are supposed to write in the purpose of the checks—you see here, that is what that was printed for. It says so here. The date, the amount, and the purpose. There is nothing in there. They are blank.

Mr. WOODNER. First, I can assure you I did not write those checks. I signed those checks.

The CHAIRMAN. Are you going to testify that you did not authorize them?

Mr. WOODNER. I have no recollection whether I authorized them or not.

The CHAIRMAN. Did you sign each of them?

Mr. WOODNER. If I look at them again, I can tell you whether it is my signature.

The CHAIRMAN. You signed each of them—I will show you this one and ask you if you did not only sign the check, but make the check out and, likewise, endorse it on the back, all three?

Mr. WOODNER. Yes, I did.

Mr. SIMON. Did you have something you were going to finish?

Mr. WOODNER. Yes. I want to complete the explanation asked of me as to why these checks were written, and I will say these checks were written by the Jonathan Woodner Co. for deposit to the personal account of Ruth Woodner, or other members of our family.

Mr. SIMON. These checks weren't for other members of your family.

Mr. WOODNER. No.

Mr. SIMON. We are talking about these five, now.

Mr. WOODNER. For the personal account of Ruth Woodner. From time to time my accounting staff and the employees were concerned with interpreting the current FHA regulations and they would advise that for some member of my family to be an acceptable sponsor for a project, it was necessary that there be on deposit a certain amount of liquid capital. I was further advised that, as a result of our having a credit balance, I had the ability to write those checks. It was done according to advice received from my staff for the purpose of making ourselves acceptable sponsors for the FHA. In this organization, I was an architect and builder. I had to and did rely upon my staff for advice concerning this type of transaction.

Mr. SIMON. We have established from your testimony the purpose was to have FHA believe that Ruth Woodner had some liquid assets.

Mr. WOODNER. They did, at that time.

The CHAIRMAN. Make it clear. Was that \$36,000 a loan to her, a gift to her, or payment in compensation, or what was it?

Mr. WOODNER. These checks were deposited to her account. There was no determination made on these in the end of the year or something of that nature.

Mr. SIMON. You have the auditor's ledger sheet before you. It shows, on March 6, I believe, a debt to Ruth Woodner of \$10,000, is that it? Do you find that?

Mr. WOODNER. On March 23.

Mr. SIMON. Is that the first entry, there?

Mr. WOODNER. March 18 is the first entry; \$6,000.

Mr. SIMON. And that presumably is this March 15 check for \$6,000, is that right?

Mr. WOODNER. I do not know.

Mr. SIMON. Do you know anything else it could be?

Mr. WOODNER. I do not know.

Mr. SIMON. Then what is the next entry?

Mr. WOODNER. March 23, \$10,000.

Mr. SIMON. And we have a check dated March 23, for \$10,000.

I have 3 checks here dated February 23 and February 24, totaling \$20,000. Are they shown in that ledger?

Mr. WOODNER. We have an adjusting entry here of \$20,000, as of June 30, but I don't know what it means.

Mr. SIMON. Was that adjusting entry of June 30 made to charge her with the \$20,000 represented by the checks I hold in my hand?

Mr. WOODNER. I do not know. I didn't know how these books were kept and I had nothing to do with the set of books.

Mr. SIMON. What is the first entry on that sheet of paper?

Mr. WOODNER. March 18.

Mr. SIMON. What year?

Mr. WOODNER. 1949.

Mr. SIMON. What is the last entry on the sheet?

Mr. WOODNER. August 15, 1949.

Mr. SIMON. When did you and Mrs. Woodner separate?

Mr. WOODNER. Around the latter part of October, the first part of November.

Mr. SIMON. 1949?

Mr. WOODNER. Yes.

Mr. SIMON. The ledger sheet you have, Mr. Woodner, shows that in 1949; she was paid, or she was advanced, a total of \$40,000, is that right? I think you will find the sheet shows that. I am asking, Mr. Woodner, if that is what the sheet shows?

Mr. WOODNER. I see a figure of \$40,000, but I don't know what it means.

Mr. SIMON. Isn't that the total of the advances made to her in 1949?

Mr. WOODNER. I do not know.

Mr. SIMON. Can you add the column, Mr. Woodner, and tell us?

The CHAIRMAN. Let your accountant do it. That is what you pay him for. Let him add it up.

Mr. ROWEN. This does show there was forty-thousand-and-some-odd dollars.

The CHAIRMAN. You know we went over that last night and you know you and your accountant decided it was \$40,000. Why do we have to work so hard to get the answers to these things?

Mr. SIMON. Does it also show that she returned \$15,000, in 1949?

Mr. WOODNER. Yes.

Mr. SIMON. Mr. Woodner, where did the other \$25,000 go?

Mr. WOODNER. I do not know why our books do not show—

Mr. SIMON. Forgetting the books for the moment, where did the \$25,000 go?

Mr. WOODNER. I do not know.

The CHAIRMAN. His answer is he doesn't know.

Mr. SIMON. Did you ever draw checks on Ruth Woodner's account on the Corn Exchange Bank in New York payable to cash?

Mr. WOODNER. I do not recollect.

Mr. SIMON. Are you prepared to say that you did not draw checks on her account which you signed, payable to cash?

Mr. WOODNER. I haven't said anything. I have to give the same answer. I do not recollect.

Mr. SIMON. Did you draw checks on her account with the Corn Exchange Bank in New York which you signed payable to cash, or currency, for quite substantial sums?

Mr. WOODNER. I can say the probability is that I did not, but I still say I do not recollect.

Mr. SIMON. Did you personally draw the checks that checked out this \$25,000?

Mr. WOODNER. I would say "No."

Mr. SIMON. Did she sign them?

Mr. WOODNER. I would say "No."

Mr. SIMON. If you didn't sign them, and she didn't sign them, who did sign them?

Mr. WOODNER. I don't know if there were any checks drawn against this account.

Mr. SIMON. The \$25,000—is it still in the Corn Exchange Bank?

Mr. WOODNER. I don't know that the \$25,000 is in the Corn Exchange Bank.

Mr. SIMON. We do know that the \$36,000 was deposited in the Corn Exchange Bank?

Mr. WOODNER. Yes, sir.

Mr. SIMON. Is it still there?

Mr. WOODNER. I do not know. I doubt it.

Mr. SIMON. As of the time when you and your wife separated, you arranged your financial affairs between yourselves; didn't you?

Mr. WOODNER. Yes.

Mr. SIMON. And you know as of that time there wasn't any substantial sum of money in the Corn Exchange Bank; don't you?

Mr. WOODNER. I cannot recollect, but I might say this, that—

Mr. WINN. Let him answer.

Mr. SIMON. I would like to have him finish my answer, first.

Mr. WOODNER. I am trying to answer your question. It is a complicated question which has to do with bookkeeping and which I can assure you, and swear that I knew nothing about, this bookkeeping matter.

Mr. SIMON. What I would like to find out from you—and you can take all the time you want to answer, is whether you signed the checks

that checked out this \$36,000 in the Corn Exchange Bank and if you didn't sign them, who you think did sign them?

Mr. WILLIAMSON. Could he answer your other question first, Mr. Simon?

Mr. SIMON. I think he ought to answer that question.

The CHAIRMAN. He can answer this question, and then the other.

Mr. WOODNER. May I have it again?

Mr. SIMON. I would like to know whether you, personally, signed the checks that checked out of the Corn Exchange Bank this \$36,000, and if you didn't sign them, who you think signed them?

Mr. WOODNER. I cannot recollect correctly.

Mr. SIMON. You can't recollect whether you signed them?

Mr. WOODNER. Yes, sir.

Mr. SIMON. Then you can't recollect who signed them if you didn't?

Mr. WOODNER. That is correct.

Mr. SIMON. But you are satisfied that Ruth Woodner didn't do it?

Mr. WOODNER. No; I am not satisfied.

Mr. SIMON. You think she may have done it?

Mr. WOODNER. She may have; yes.

The CHAIRMAN. Now, what was it you wanted to say?

Mr. WOODNER. You see, these are the two questions I couldn't answer clearly yesterday because it is a matter of bookkeeping and it is as new to me as it is to you. I do not know why a portion of our books which we have studied with you do not disclose the return of the \$25,000 deposited to the account of Ruth Woodner. I do know that the nature of my organization and its status at that time was such that \$25,000 just could not be taken out and never put back in. In my opinion, that is a financial impossibility, because we did not have too much funds, as we were expanding and needed all the funds to do our work.

I am advised that that money could have gone back into one of the several corporations——

The CHAIRMAN. I told you last night, with the help of the General Accounting Office accountants we are going to help you straighten all this out.

Mr. WOODNER. Let me complete my little statement here.

It could have gone back into any one of the corporations either in cash——

Mr. SIMON. By whom were you advised of that?

Mr. WOODNER. By my accountants.

Mr. SIMON. Who?

Mr. WOODNER. The people working with me.

Mr. SIMON. What is the name?

Mr. WOODNER. Mr. Mandell or Miss Sades. By the people who handle my affairs.

Mr. SIMON. Can you tell us who gave you the advice of the statement you just read?

Mr. WOODNER. I cannot recollect at this date who gave me general advice.

Mr. SIMON. Mr. Woodner, you are reading from a prepared statement?

Mr. WOODNER. Because I have to clarify it in my own mind. This is not a simple thing for me to clarify.

Mr. SIMON. Who gave you that advice?

Mr. WOODNER. I wrote this statement. Please let me complete my little statement, here.

The CHAIRMAN. Go ahead and read your statement.

Mr. WOODNER. All right, sir. Thank you.

I am advised that money could have gone back into one of the corporations, either in cash or in property, or in some other manner, and would not necessarily have been reflected on this particular account here. My accountants who advised me of this are even now making an extensive audit of our books, but it has not been completed. They tell me that when it is done, all of these accounts will have been reconciled and they will furnish you with whatever information you may desire.

Mr. SIMON. Now, Mr. Woodner, there are a couple of things we do know. We do know that between February 23 and March 23, 1949, checks totaling \$36,000 were drawn on the Jonathan Woodner Co., to the order of Ruth Woodner. Is that right?

Mr. WOODNER. Yes.

Mr. SIMON. We do know those checks were endorsed for deposit to her account by someone other than Ruth Woodner.

Mr. WOODNER. They were endorsed for her account, for deposit by probably the person who made out the checks, for deposit.

Mr. SIMON. Except in the one case where you did it.

Mr. WOODNER. The person who made out the check was me, in that case.

Mr. SIMON. We do know that the checks were deposited to her account in the Corn Exchange Bank in New York; is that right?

Mr. WOODNER. I believe so. I am not absolutely certain but my guess is that they might have been.

Mr. SIMON. We do know that your ledger shows that in the early part of 1949, she received a total of \$40,000, including the \$36,000 she received in this 1-month period; is that right?

Mr. WOODNER. The ledger shows that.

Mr. SIMON. We do know she returned \$15,000 to the company. Is that correct?

Mr. WOODNER. The ledger shows that.

Mr. SIMON. Now, do you know or are you able to tell us what happened to the rest of the money represented by these checks that were deposited to her account in the Corn Exchange Bank in New York?

Mr. WOODNER. No.

Mr. SIMON. Who is Max Woodner?

Mr. WOODNER. Max Woodner is my brother.

Mr. SIMON. For whom does he work?

Mr. WOODNER. He is a stockholder in the Shipley Corp.

Mr. SIMON. Who does he work for?

Mr. WOODNER. He works for the corporation, including Jonathan Woodner Co.

Mr. SIMON. What is his salary?

Mr. WOODNER. I don't know what his specific salary is, but I know he has a drawing account just the way I do.

Mr. SIMON. Last night, as I understand it, you used the figure of \$3,600 a year.

Mr. WOODNER. I did not.

Mr. SIMON. Didn't you mention \$3,600 a year as a drawing account?

Mr. WOODNER. Mr. Rowen did. Mr. Rowen keeps the books.

The CHAIRMAN. Does he draw a salary?

Mr. ROWEN. There is a salary charged to his account at the end of the year. Last year it was charged at \$3,600.

The CHAIRMAN. Then his salary last year was \$3,600.

Mr. ROWEN. Yes.

Mr. SIMON. What is he drawing this year?

Mr. ROWEN. I don't know. He is down in Texas and I don't know what he is setting up on his books.

The CHAIRMAN. Is he running a separate corporation in Texas? Is he signing checks in Texas on this corporation?

Mr. WOODNER. On his single-family housing project.

The CHAIRMAN. Is that a separate corporation?

Mr. ROWEN. There is a separate corporation.

The CHAIRMAN. Does he sign checks on that corporation?

Mr. ROWEN. Yes.

The CHAIRMAN. He does?

Mr. ROWEN. Yes.

Mr. SIMON. His drawing account last year was \$3,600. What was it the year before?

Mr. ROWEN. I don't know, sir.

Mr. SIMON. Does your brother have any source of income other than this corporation?

Mr. WOODNER. I would say, generally speaking, no. He had some real estate in his own name which he has had for some time, but it is not substantial.

Mr. SIMON. What is the value of that real estate?

Mr. WOODNER. I would say probably \$20,000.

Mr. SIMON. Now, during this same period of 6 weeks when the application was pending before FHA for the Woodner, there were checks drawn to your brother Max—one of them just before the application was filed, on February 4, 1949, for \$50,000.

The next one is March 7, 1949. There are 2 checks to Max for \$10,000 and \$20,000, respectively.

On March 18 there is one to Max for \$2,000, and on March 23 there is one to Max of \$35,000. That is \$117,000.

The CHAIRMAN. In a 30-day period.

Mr. SIMON. I ask you to look at those checks and tell me how many of them bear Max's endorsement on the back?

Mr. WOODNER. One.

Mr. SIMON. Who endorsed the other four?

Mr. WOODNER. They are endorsed to the deposit of the credit of Max Woodner, and probably by the person who made out the check.

Mr. SIMON. Were those deposited in the account of Max Woodner's at the American Security Trust Co. in Washington?

Mr. WOODNER. They probably did.

Mr. SIMON. We asked you, Mr. Woodner, to produce the bank statements of Max Woodner for February and March 1949. Were you able to do so?

Mr. WOODNER. I requested my accountant here to do it. He presented what we had.

Mr. SIMON. He gave me bank statements for April and May, but it was February and March that we asked for.

Mr. WOODNER. I didn't have them.

Mr. SIMON. Do you know where they are?

Mr. WOODNER. We have asked the American Security Bank for those records.

Mr. SIMON. Do you know where they are?

Mr. WOODNER. They are probably in the American Security Trust.

Mr. SIMON. We have, which we subpoenaed from the American Security & Trust Co., a photostat of their ledger, which shows the checks drawn by Max on that account and it shows that during the month of February and the month of March 1949, Max drew 6 checks for \$5,000 each. Do you know who those checks were payable to?

Mr. WOODNER. No.

Mr. SIMON. Did you draw checks on Max's account?

Mr. WOODNER. I don't believe so.

Mr. SIMON. Did you ever sign Max's name to a check?

Mr. WOODNER. I have no recollection.

Mr. SIMON. Did you testify last night that you did?

Mr. WOODNER. I have no recollection whether I did or did not.

Mr. SIMON. Did you have Max's authority to sign his name to checks on the American Security account?

Mr. WOODNER. Well, I had a general authority like he had. It was family business and we had general authority, one with another.

The CHAIRMAN. Does that mean, now, that you could sign his name to a check, get the money out of his account, at the American Security National Bank?

Mr. WOODNER. I probably could have, but I doubt whether I did during that period because during that period I believe Max was in Washington, D. C.

The CHAIRMAN. But you are not certain that you did not?

Mr. WOODNER. I am not certain; no, sir.

Mr. SIMON. Is what you are saying, Mr. Woodner, that when he was here he would sign the checks himself and when he wasn't you would just write his name on the checks?

Mr. WOODNER. I wouldn't say that; no.

Mr. SIMON. Have you ever drawn a check on Max's account in the American Security Bank and signed his name to it?

Mr. WOODNER. I cannot recollect whether I did or not.

Mr. SIMON. And you can't tell us what these items are for?

Mr. WOODNER. I haven't seen the items.

Mr. SIMON. My question is, What are those items for, represented by the checks drawn out of Max's account, in \$5,000 amounts, in February and March 1949?

Mr. WOODNER. I do not know.

Mr. SIMON. Who is Beverly Woodner?

Mr. WOODNER. Beverly Woodner is my sister.

Mr. SIMON. Does she work for the company?

Mr. WOODNER. Yes, sir.

Mr. SIMON. What is her salary?

Mr. WOODNER. Approximately \$150 a week.

Mr. SIMON. On March 10, 1949, Jonathan Woodner Co. drew a check to Beverly for \$15,000 and on March 23, for \$10,000. I would

like to have you look at these checks and tell me whether either of them bears Beverly's signature on the return side?

Mr. WOODNER. These do not bear her signature. They seem to bear the signature, or the writing, rather, of the person who made out the checks, to be deposited to the account of Beverly Woodner.

Mr. SIMON. Do you know whose handwriting that is?

Mr. WOODNER. I do not.

Mr. SIMON. Were those checks deposited in the account of Beverly?

Mr. WOODNER. I imagine so. They were probably sent through the mail.

Mr. SIMON. Do you know?

Mr. WOODNER. I do not know, but it says "Foreign Exchange Bank" underneath.

Mr. SIMON. Did Beverly have an account in the Foreign Exchange Bank?

Mr. WOODNER. I believe so.

Mr. SIMON. Did you sign checks on that account?

Mr. WOODNER. I do not recollect whether I did or not.

Mr. SIMON. You are not prepared to say you did not?

Mr. WOODNER. I am not absolutely prepared to say I did not. I generally did not, I would say.

Mr. SIMON. Do you know whether Beverly knew this \$25,000 had been deposited in her account?

Mr. WOODNER. I wouldn't know exactly whether she did, but she was familiar with our business.

Mr. SIMON. Do you know what the purpose of those \$25,000 checks was?

Mr. WOODNER. The purpose of those checks was exactly the same as the purpose as given to you for the checks of Ruth Woodner.

Mr. SIMON. Do you mean to tell the FHA that she had liquid assets?

Mr. WOODNER. She did have liquid assets at that time.

The CHAIRMAN. She had them when she received these checks?

Mr. WOODNER. Yes.

The CHAIRMAN. Was that \$25,000 loaned to your sister, was it given to your sister, or was it in payment of compensation, or what was the \$25,000 for?

Mr. WOODNER. I do not know what the particular purpose was. It was deposited in the account of these people to be used for various purposes.

The CHAIRMAN. Why were they always in round amounts like \$5,000, or \$10,000, and so forth?

Mr. WOODNER. For that particular reason, that it was a general running account, and I think you will find in our history, from then on, all of it ran that way.

The CHAIRMAN. For example, Max Woodner was an employee of yours?

Mr. WOODNER. He is also a stockholder, owner, and director.

The CHAIRMAN. And Beverly was an employee of yours?

Mr. WOODNER. And stockholder, owner, and director.

The CHAIRMAN. And your wife?

Mr. WOODNER. And she was the same.

The CHAIRMAN. We are going to show here in a moment that checks made out to your account were all in round figures during this same

period of time, and the total of the four them is \$265,000, I think, in round figures, during about a 30-day period.

Are you going to sit there and tell us, Mr. Woodner, that you haven't the slightest idea what that money was paid to these people for?

Mr. WOODNER. I would say it is for the general purpose of conducting our business.

Mr. SIMON. As I understand it, Beverly got this \$25,000 because she had to give FHA a statement showing some assets; is that right?

Mr. WOODNER. That was one of the reasons. I wouldn't say it was the exclusive reason.

Mr. SIMON. In March 1949, how many FHA projects did you have going?

Mr. WOODNER. Do you mean under construction?

Mr. SIMON. In any situation which required her to give FHA evidence of her work. After you had the commitment, that wasn't required any more; was it?

Mr. WOODNER. That's correct.

Mr. SIMON. How many did you have under construction when the commitment had been issued?

Mr. WOODNER. I think there was only one.

Mr. SIMON. What was that?

Mr. WOODNER. The Rock Creek Plaza.

Mr. SIMON. I show you what purports to be a statement of Beverly Woodner dated March 10, 1949, which is the very date of the first check, but 13 days before the second check, and ask you if that is the statement FHA was given?

Mr. WOODNER. Yes; I believe it was.

Mr. SIMON. At the bottom is the handwriting "Beverly Woodner." Is that your signature or hers?

Mr. WOODNER. I believe that is hers.

Mr. SIMON. That is her signature?

Mr. WOODNER. I believe so.

Mr. SIMON. It shows cash on deposit in the Foreign Exchange Bank of some \$17,000.

Mr. WOODNER. The Foreign Exchange Bank was the major bank. I think she may have a savings and loan association account.

Mr. SIMON. And it shows \$17,000; is that right?

Mr. WOODNER. And it also shows Lincoln Square Bank.

Mr. SIMON. In the two banks she had a total of \$17,000, on March 10?

Mr. WOODNER. Yes, sir.

Mr. SIMON. Does that include the \$15,000?

Mr. WOODNER. I do not know that.

Mr. SIMON. Represented by this check.

Mr. WOODNER. I do not know that.

Mr. SIMON. Notice that check is dated March 10, the same day, it was not deposited in the bank until March 14.

Mr. WOODNER. That's correct.

Mr. SIMON. But, you don't know whether this \$15,000 is part of that \$17,000?

Mr. WOODNER. No.

Mr. SIMON. In any event, the second check is dated March 23. That couldn't have been for the purpose of increasing her assets for FHA; could it?

Mr. WOODNER. I do not know. It might have been for one of our other activities.

Mr. SIMON. Did you have any other FHA applications pending at that time?

Mr. WOODNER. I don't recollect whether I did, or did not.

Mr. SIMON. Can you tell me any other purpose for which this \$10,000 check could have been issued 13 days after Beverly gave the statement to FHA?

Mr. WOODNER. The general purpose was for the conduct of our business in different forms.

The CHAIRMAN. Let us ask you this: Here is a lady getting \$25,000. You say for the general conduct of your business.

Now, to whom would she pay this money to, then, in the general conduct of your business?

Mr. WOODNER. It was generally paid back to the Jonathan Woodner Co.

The CHAIRMAN. Why give it to her if it was to be paid back?

Mr. WOODNER. It might have been drawn against her account. We each had a running credit balance with the company.

Mr. SIMON. Mr. Woodner, you had testified last night, I believe, that in 1944 when you started this activity, you were worth between \$20,000 and \$40,000; is that right?

Mr. WOODNER. I don't remember that. That was a long time ago.

Mr. SIMON. Was that what you testified to last night?

Mr. WOODNER. That was a rough figure; yes.

The CHAIRMAN. Was it approximately correct?

Mr. WOODNER. I cannot recollect, now.

The CHAIRMAN. Well, you testified last night it was about \$40,000.

Mr. WOODNER. I think I said——

Mr. SIMON. \$20,000 to \$40,000.

The CHAIRMAN. \$20,000 to \$40,000.

Do you want to check your testimony now?

Mr. WOODNER. I gave you an approximation.

The CHAIRMAN. We'll permit you to change your testimony in this instance, if you want to.

Mr. WOODNER. Well, I actually don't know. I mean, I really don't know.

The CHAIRMAN. Did you know last night when you said \$20,000 to \$40,000?

Mr. WOODNER. I thought the question was what we earned, on that project, there.

The CHAIRMAN. No; the question was as to your net worth.

Mr. WOODNER. No; I believe the question was what the——

Mr. SIMON. Well, what was your net worth in 1944?

Mr. WOODNER. I do not recollect.

Mr. SIMON. Was it \$1 million?

Mr. WOODNER. No, sir.

Mr. SIMON. Was it \$100,000?

Mr. WOODNER. I don't know.

Mr. SIMON. Was it \$50,000?

Mr. WOODNER. I have explained, I do not know.

Mr. SIMON. What was your net worth in 1949?

Mr. WOODNER. My net worth, I do not know that. It fluctuates from time to time.

Mr. SIMON. Was it as much as \$3 million?

Mr. WOODNER. I think it was primarily the value of our equities in various projects and my equity in the Shipley Corp. on an appraised value.

Mr. SIMON. I have here a statement purporting to be dated August 25, 1949, showing your net worth at \$2,951,000.

Mr. WOODNER. May I see the statement?

Mr. SIMON. Yes, sir.

The CHAIRMAN. What is the date of that?

Mr. SIMON. August 1949.

The CHAIRMAN. Was that furnished by you to FHA?

Mr. WOODNER. I imagine I did.

The CHAIRMAN. You imagine you did?

Mr. WOODNER. I believe I did.

Mr. SIMON. Is that accurate?

Mr. WOODNER. Is this accurate?

Mr. SIMON. Yes.

Mr. WOODNER. This is an appraisal of my worth.

Mr. SIMON. Is it accurate, Mr. Woodner?

Mr. WOODNER. It is no more accurate than an appraisal can be of any individual making an appraisal of his worth. It is to the best of my ability.

The CHAIRMAN. In your best judgment is it what you figured your holdings were worth, at that time?

Mr. WOODNER. Yes, based upon the sales price of things at the time, and estimate of values.

Mr. SIMON. Mr. Woodner, I have here a consolidated balance sheet of the Shipley Corp. dated December 31, 1946, and it shows capital and surplus of \$55,000, \$55,829 to be exact. And, I have here a consolidated balance sheet of the Shipley Corp. dated December 31, 1953, and it shows capital and surplus of \$1,546,000.

Do you know where the difference came from?

Mr. WOODNER. What was that, sir? I didn't get all those figures.

The CHAIRMAN. The difference between your personal statement showing \$2,900,000, and Shipley's statement showing \$1,500,000, when Shipley owns all these corporations.

Mr. WOODNER. Well, I don't know if Shipley is based upon an appraisal of real-estate equities, or the book value.

Mr. SIMON. Take it in two bites, first. The 1946 statement shows capital and surplus of \$55,000, and the 1953 statement shows capital and surplus of \$1,546,000. Now, where did that increment come from?

The CHAIRMAN. I am going to try to help you out, here: I presume the statement you gave them showing nearly \$3 million was an appraisal of these properties.

Mr. WOODNER. Yes.

The CHAIRMAN. And I presume the statement of Shipley was based upon the actual cost of the projects.

Mr. WOODNER. As determined by accountants and auditors.

Mr. SIMON. This statement also says that included in capital and surplus of Shipley is \$801,000 in paid-in surplus. Now, where did that \$801,000 come from?

Mr. WOODNER. I do not know.

Mr. SIMON. I take it somebody paid it in, is that right?

Mr. WOODNER. I do not know. I don't know how far you go back into our corporation structure.

Mr. SIMON. You furnished us with this statement, Mr. Woodner. We asked you in the executive session several weeks ago where that \$801,000 came from and you then didn't know. Have you made any effort in the interim to find out?

Mr. WOODNER. Mr. Rowen, our accountant, probably has made an effort.

Mr. ROWEN. When that question was raised at the first executive session, we directed the accountants who have been working on our books, doing our auditing for the last 7 or 8 years, to give us a complete analysis of that, because Mr. Woodner has no knowledge of how that was arrived at, nor did I because it goes all the way back to 1946.

Mr. SIMON. I understand you have, but recently, come to the company, Mr. Rowen.

Mr. ROWEN. That's right.

The CHAIRMAN. How long have you been there?

Mr. ROWEN. About a year and a half.

The CHAIRMAN. Who was the top man with you in 1949 who could really answer these questions and answer the questions that you can't?

Mr. WOODNER. I would say the auditing firm.

The CHAIRMAN. I mean in your office.

Mr. WOODNER. Actually, I would say the determination of these things was probably made by our auditing firm, rather than by the people in our office.

The CHAIRMAN. The auditing firm audits but once a year.

Mr. WOODNER. They advise how to set up your capital structure.

The CHAIRMAN. Do you mean each day they sit there and say, "Charge this to this account and write this check to"——

Mr. WOODNER. No; I mean increment in capital stock.

Mr. SIMON. The Senator wants to know who can tell us why these checks were issued.

Mr. WOODNER. I think I have told you why these checks were issued.

Mr. SIMON. What we are interested in, Mr. Woodner, is the specific purpose and not a general pattern.

The CHAIRMAN. We are trying to be helpful to you, because as a businessman it is amazing to me that a company as big as your company in about 3 or 4 weeks would issue checks to 4 people for about \$250,000 in just round figures, like \$35,000, \$10,000, and \$5,000, and where you are supposed to put in what they are for doesn't show anything at all. You can't find the entries to account for it. You don't remember the purpose and why they were issued.

Then, we get some statements from the banks and it shows checks in round figures going back and forth.

Mr. WOODNER. That has been the practice in our company and the money——

The CHAIRMAN. Why wasn't it the practice, then, in other months? We can't find where you did this in other months.

Mr. WOODNER. I believe so. I believe so.

The CHAIRMAN. You show us.

Mr. SIMON. Your own record of Ruth, there, shows there was nothing paid to——\$40,000 in the whole year, and \$36,000 of it in this 4-week period.

Mr. WOODNER. I believe, as I say, there may be a bookkeeping error in that thing and it may have gone into one of the other corporations and has not come back into the bookkeeping of this particular account.

Mr. SIMON. Mr. Woodner, how many former FHA officials worked on this application for you?

Mr. WOODNER. On this application?

Mr. SIMON. Yes.

Mr. WOODNER. When you say officials, do you mean employees or officials? I would say no officials.

Mr. SIMON. Who actively walked this application through FHA?

Mr. WOODNER. I would say Wallace Holladay.

Mr. SIMON. Did Wallace Holladay ever work for FHA?

Mr. WOODNER. Yes; he did for a short period of time.

Mr. SIMON. When did he leave FHA?

Mr. WOODNER. Around 1946 or 1947.

Mr. SIMON. When did he go to work for you?

Mr. WOODNER. At that time.

Mr. SIMON. The day after he left FHA?

Mr. WOODNER. Yes. As a matter of fact, I explained how I happened to hire him.

Mr. SIMON. What other former FHA officials worked on this matter for you?

Mr. WOODNER. None.

Mr. SIMON. Really? Are you sure of that?

Mr. WOODNER. Not in my employ.

Mr. SIMON. Have you ever heard of Loy Anderson?

Mr. WOODNER. He is an attorney. He is not an employee of mine.

Mr. SIMON. I didn't say employee. I said what former FHA officials worked on this for you.

Mr. WOODNER. He did not work on the application.

Mr. SIMON. What did he do?

Mr. WOODNER. He was the closing attorney.

Mr. SIMON. He represented you in connection with this Rock Creek matter?

Mr. WOODNER. He represented me in connection with the purchase of the land, only, and then when it came to closing we had to have an attorney to draw up the paper, and he, his office, was the attorney for the closing.

Mr. SIMON. He was formerly with FHA, wasn't he?

Mr. WOODNER. Much prior to my time.

Mr. SIMON. He was formerly with FHA?

Mr. WOODNER. Well, I had been told he was.

Mr. SIMON. Didn't you know that?

Mr. WOODNER. I had been told he was, and I knew it to that extent.

Mr. SIMON. Holladay got how much when he worked for you?

Mr. WOODNER. I believe \$125 a week.

Mr. SIMON. Did you build a house for him?

Mr. WOODNER. Our company built a house for him.

Mr. SIMON. Did it cost about \$32,000?

Mr. WOODNER. I don't believe it cost him that much.

Mr. SIMON. How much did it cost?

Mr. WOODNER. It might have ended up at \$32,000. I know he started building a \$17,000 house. Our books definitely show that because I know he hasn't paid in total for it yet.

Mr. SIMON. How much of a mortgage did he get on it?

Mr. WOODNER. I do not know. May I ask the accountant?

Mr. ROWEN. About \$14,000.

Mr. SIMON. And the balance is about \$18,000, the difference between the mortgage and——

Mr. ROWEN. That's right.

Mr. SIMON. When did you build this house for him?

Mr. WOODNER. This house was being built from 19—I would say 1950-51. In that period of time.

Mr. SIMON. When he moved into it, the mortgage was \$14,000 and it cost \$32,000. Did he pay you anything?

Mr. WOODNER. When he moved in, it hadn't reached that yet. It wasn't quite completed.

Mr. SIMON. Had he paid you anything?

Mr. WOODNER. Yes.

Mr. SIMON. Prior to 1954, did he pay you anything?

The CHAIRMAN. Suppose you answer in your own right.

Mr. ROWEN. I am not too familiar with it.

The CHAIRMAN. You have been auditor there for a year.

Mr. ROWEN. This happened in 1950 and 1951. I have had no occasion to go back on these accounts.

The CHAIRMAN. He was paid——

Mr. WOODNER. He paid from time to time certain amounts on the account.

Mr. SIMON. Isn't it a fact that up to now he has paid the interest on the mortgage, but hadn't paid you a dime?

Mr. WOODNER. I am not certain.

Mr. SIMON. You are not prepared to say whether he paid you any money prior to this year on that building, are you?

Mr. WOODNER. I am not prepared to say.

Mr. SIMON. If I told you he testified in executive session on Saturday that prior to this year he had paid you nothing on that, would you think he was wrong?

Mr. WOODNER. No, I would not believe he was wrong.

Mr. SIMON. How well do you know Clyde Powell?

Mr. WOODNER. Just occasionally.

Mr. SIMON. How many times have you met him?

Mr. WOODNER. Do you mean in the office——

Mr. SIMON. How many times were you and he in the same room?

Mr. WOODNER. I would say about 8 or 10.

Mr. SIMON. When was that?

Mr. WOODNER. Starting with around 1952, the beginning or the very end of 1951.

Mr. SIMON. You didn't meet him before 1951?

Mr. WOODNER. I may have seen him like at one of the trade conventions where he used to give a lecture on how to proceed on these matters, but not as an individual.

Mr. SIMON. Do you know whether Holladay dealt with him in this matter?

Mr. WOODNER. I am pretty certain he did not.

Mr. SIMON. You are certain he did not?

Mr. WOODNER. I am almost certain he did not.

Mr. SIMON. Are you certain or almost certain?

Mr. WOODNER. I would say almost because I don't know exactly what Holladay's function was. His function was more, I would say, with the district office where he had been employed.

Mr. SIMON. You knew this had to be approved by the headquarters' office, don't you?

Mr. WOODNER. No, I do not.

Mr. SIMON. You don't know that?

Mr. WOODNER. I didn't know what the procedure was inside the district office.

Mr. SIMON. You didn't know this particular application was approved at the headquarters' office?

Mr. WOODNER. Well, I assumed if all applications are, then this one went along with it, but I didn't realize that the headquarters approved applications. I knew they came into——

Mr. SIMON. Forgetting about every other application except this one for the Rock Creek Plaza, did you know that it had been approved by the headquarters' office?

Mr. WOODNER. I did not know.

The CHAIRMAN. We are going to excuse you, now, only in recess, because we are going to call you later. You will remain under the same subpoena until we call you. We will probably want to hear you in Chicago with respect to this Chanute business. Then we will want to hear you more with respect to this whole business. As I said a moment ago, we are going to try to assist you in straightening out the matters that you seem to have failed to remember.

Mr. WOODNER. As a matter of fact, I would like that very much. As I explained before, my function is that of an architect and builder and that is my prime and natural function. So many people have——

The CHAIRMAN. Well, now——

Mr. WINN. Mr. Chairman, could Mr. Woodner make a statement which he has here, a part of his testimony, today, and leave it with you?

The CHAIRMAN. Without objection, it will be made a part of the record.

Mr. SIMON. Have you answered the FHA questionnaire on all these Shipley projects?

Mr. WOODNER. Which one is that?

Mr. SIMON. Mr. Mason sent a questionnaire.

The CHAIRMAN. I am going to rescind the statement I made about putting this in the record. This has to do with the Wherry project at Chanute Field. We have not gone into that yet, except in a very small way. We are going to go into it and hold hearings on it in Chicago and I am going to hand this back to you and we will make it a part of the record in Chicago.

Mr. WINN. I think it would be helpful to make it a part of the record now, Mr. Chairman.

The CHAIRMAN. You have already given it to the press.

Mr. WINN. I would not have given it to the press if you ruled against it to start with. I didn't give it to the press until it was made a part of the record.

The CHAIRMAN. You couldn't have distributed——

Mr. WINN. Mr. Chairman, I laid them on the table after you said it would be made a part of the record. I think it would be helpful to have it in the record.

The CHAIRMAN. It will not be placed in the record at this time, because we are not in Chanute Field. We will go into that later.

Mr. WINN. The reason I think this is pertinent is because this particular job has had probably the most enormous effect on our particular company in constructing housing in this country. It has had an enormous effect, away beyond the particular project itself. The difficulties we have encountered in finishing up our projects, which we have done, without defaults.

Mr. SIMON. But you are in default.

Mr. WOODNER. I am not in default.

Mr. SIMON. The Government is now managing the property.

Mr. WOODNER. I am not in default.

Mr. SIMON. Hasn't the Government taken over possession of the property?

Mr. WOODNER. No.

Mr. SIMON. Who is operating the property now?

Mr. WOODNER. Mr. Russell Long.

Mr. SIMON. Isn't the Air Force operating the property?

Mr. WOODNER. No.

Mr. SIMON. Are the Air Force officials wrong when they tell us they have taken over the management?

Mr. WOODNER. I believe they are, and I believe they are wrong in many instances.

The CHAIRMAN. Are you testifying that the Air Force, who in their testimony before us said they were operating the property—if they said that you say that is not a true statement?

Mr. WOODNER. I would say they are false in many respects of their testimony. I have a copy of their testimony.

The CHAIRMAN. That is why I don't want to go into it at the moment.

Mr. WOODNER. The point is, that particular project, which was done in the spirit of doing a project for the Air Force which was in dire need of housing—

Mr. SIMON. There are two sides of that.

Mr. WOODNER. I agree with you, and I am most happy to have the two sides exposed, but it has been of such enormous effect on our total building operations, and individually as well, and the particular obligations we still carry as a result of that.

The CHAIRMAN. You have gone from Washington to Chanute. I assume you are going to say there were no builders in the area who could have built this project and that there were no builders in the area of Chanute, Chicago, Indiana, or Illinois, who would handle that job. I don't believe it.

Mr. WOODNER. The housing in the Washington area was pretty well saturated, and with war coming on, the national sphere of activity for the construction company was in housing for military units.

Mr. SIMON. Have you answered Norman Mason's questionnaire?

Mr. WOODNER. I have; yes.

Mr. ROWEN. We are in the process.

Mr. WOODNER. We have started it. It is a complicated thing.

Mr. SIMON. Where are the books and records relating to Jonathan Woodner Co. and the Woodner Hotel or Woodner Apartment House physically located at the moment?

Mr. WOODNER. I suppose they are in New York.

Mr. ROWEN. Some are in New York, and some are in Washington.

Mr. SIMON. Those in Washington, where are they in Washington?

Mr. WOODNER. You see, our construction was stopped. We have had no construction——

Mr. SIMON. Where are the records of these companies that pertain to the Jonathan Woodner Co. and the Woodner Hotel, physically, at the moment?

Mr. WOODNER. I would say more—it is my recollection because I don't know for sure, but probably there are more in New York than here.

Mr. SIMON. Those that are in Washington, where are they?

Mr. WOODNER. At the Woodner Hotel.

Mr. SIMON. In what room?

Mr. WOODNER. If you ask for Mrs. Siegel, they will find them.

Mr. SIMON. What room?

Mr. WOODNER. I don't know which room. They are probably in storage.

Mr. SIMON. Where are they in storage?

Mr. WOODNER. Well, in the storage room.

Mr. SIMON. In the building?

Mr. WOODNER. Yes, sir.

Mr. SIMON. And those that are in New York, where are they in New York?

Mr. WOODNER. In our offices in New York.

Mr. SIMON. Where is that?

Mr. WOODNER. And in the auditor's office where they are now being—you see many of these things are——

Mr. SIMON. Where is your office in New York?

Mr. WOODNER. 575 Madison.

Mr. SIMON. And what is the auditor's office?

Mr. WOODNER. Marshall Grainger & Co.

Mr. SIMON. Where is that?

Mr. WOODNER. Link Building, 60 East 42d Street, I believe.

Mr. SIMON. Are all of these records either at the Woodner Hotel or Apartment House in Washington at the New York office you have just mentioned, or at the auditor's office you have just mentioned?

Mr. WOODNER. Except for the records that I believe that you have.

Mr. SIMON. Except for the records we have, they are all in one of those three places?

Mr. WOODNER. I would say so.

Mr. SIMON. May we have your assurance that for the next 48 hours they will remain where they are now?

Mr. WOODNER. Well, now, I imagine so.

The CHAIRMAN. We are not going to imagine so in this instance.

Mr. WOODNER. Yes.

The CHAIRMAN. I don't mind telling you we are going to subpoena all of the records of your company and we don't want you moving them. We are going to subpoena them, we are going to look them up and have the GAO completely audit your records.

Mr. SIMON. May we have that assurance, Mr. Woodner?

Mr. WOODNER. Yes, sir.

The CHAIRMAN. Thank you, sir.

Mr. WILLIAMSON. With regard to this last discussion, that is Woodner, specifically?

The CHAIRMAN. Any one of his corporations that he has anything to do with. The Texas company where his brother is, Oklahoma—every corporation he has anything to do with, we want the records. We are going to subpoena them this afternoon. He has agreed to see that they are not moved. We are going to try to help him straighten out his affairs.

Thank you.

We are having a meeting of the full committee tomorrow at 10 and it will finish at about 10:30. We will recess this hearing until 10:30 or 10:45, at which time our only witness, as we see it at the moment, will be Mr. George Marcus, an attorney from New Jersey. The gentleman scheduled to testify, Mr. Carmack, from Tennessee, we are excusing. We will hear his testimony either in Chicago, New Orleans, or here in Washington a little later, because we do not have time to do it today.

(Whereupon, at 12:20 p. m., the hearing recessed, to reconvene Thursday, August 5, 1954, at 10:30 a. m.)

FHA INVESTIGATION

THURSDAY, AUGUST 5, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, at 10:40 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Bennett, Beall, Payne, Goldwater, and Robertson.

Also present: Mr. William Simon, general counsel, FHA investigation.

The CHAIRMAN. The committee will please come to order. Our first witness will be Mr. George Marcus, of New Jersey.

Were you hung up a little bit?

Mr. MARCUS. I am sorry, but our plane was late.

The CHAIRMAN. Will you be sworn, Mr. Marcus?

Mr. MARCUS. Surely.

The CHAIRMAN. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MARCUS. I do.

TESTIMONY OF GEORGE I. MARCUS, HACKENSACK, N. J., ACCOMPANIED BY MORRIS RATNER, ACCOUNTANT

The CHAIRMAN. Thank you, sir. You may be seated.

Without objection I would like to place in the record at this point a letter from Mr. Marcus addressed to the Committee on Banking and Currency, United States Senate, in which Mr. Marcus apologizes for his conduct when he was here some 2 weeks ago.

Senator BENNETT. May I see the letter?

The CHAIRMAN. Yes.

(The letter referred to follows:)

LAW OFFICES, GEORGE I. MARCUS,
Hackensack, N. J.

To the Committee on Banking and Currency, United States Senate.

HONORABLE SIR: Last time when I appeared before your honorable committee I used some words which, I am frank to state upon reflection and without the pressure of the situation, I most sincerely regret. For this reason I am now writing to you and offer you my apologies.

I am of the firm belief that the conduct of my client did not violate any existing law. In fact, it is my firm belief that without the aid and assistance of persons like my client the law that was enacted to furnish housing to those in need thereof would have proved fruitless.

The position taken by my client; namely, to avail himself of his constitutional privilege, in my opinion, was properly taken. I likewise was sincere when I refused to answer questions which I then felt and still do would violate the confidential privilege of attorney and client.

However, regardless of my most sincere and deeprooted feelings and since reading the transcript of the record, I realize that my words might be considered intemperate even though I did not intend to be abusive nor to injure anyone's feelings. I fully realize the importance and gravity of the public duty which you gentlemen are performing.

I trust that you will understand the spirit with which this apology is made to you.

I respectfully request that this letter be made part of the record and have no objection to its contents being released.

Respectfully submitted.

GEORGE I. MARCUS.

Mr. CHAIRMAN. You may proceed counsel.

Mr. SIMON. Will you give your full name and address to the reporter?

Mr. MARCUS. George I. Marcus, 210 Main Street, Hackensack, N. J.

Mr. SIMON. You are an attorney with offices in Hackensack?

Mr. MARCUS. I am, sir.

Mr. SIMON. Mr. Marcus, were you present at an executive session of this committee in June in which there was discussion with your client, Mr. Sarnier, as to FHA requiring him to build a shopping center adjacent to the Linwood Park project?

Mr. MARCUS. I was.

Mr. SIMON. Without meaning to quote you precisely did you say in substance that you knew there was such a document?

Mr. MARCUS. I said that there was, in my opinion, a written requirement.

Mr. SIMON. Do you have that written requirement with you this morning?

Mr. MARCUS. No; I think I have exhibited that to you at the executive session. It was what I regard as part of the requirements contained in the original commitment.

Mr. SIMON. Didn't you bring that document back that you had on Monday?

Mr. MARCUS. Oh, yes; I have it.

Mr. SIMON. Will you read that portion of the document which you consider as requiring the building of a shopping center?

The CHAIRMAN. While he is finding that I might read a portion of this letter from Mr. Marcus. It says:

Last week when I appeared before your honorable committee I used some words which, I am frank to state upon reflection and without the pressure of the situation, I most sincerely regret. For this reason I am now writing to you and offer my apologies.

I am of the firm belief that the conduct of my client did not violate any existing law. In fact, it is my firm belief that without the aid and assistance of persons like my client the law that was enacted to furnish housing to those in need thereof would have proved fruitless.

The position taken by my client, namely, to avail himself of his constitutional privilege, in my opinion, was properly taken. I likewise was sincere when I refused to answer questions which I then felt and still do would violate the confidential privilege of attorney and client.

However, regardless of my most sincere and deep-rooted feelings and since reading the transcript of the record, I realize that my words might be considered intemperate even though I did not intend to be abusive nor to injure anyone's feelings. I fully realize the importance and gravity of the public duty which you gentlemen are performing.

I trust that you will understand the spirit with which this apology is made to you.

I respectfully request that this letter be made part of the record and have no objection to its contents being released.

It would naturally be released if it were made part of the public record.

Mr. MARCUS. I now refer to a commitment dated June 30, 1949, issued by the Federal Housing Commissioner, and signed by Thomas J. Smith, authorized agent.

Mr. SIMON. Will you read that part of it which requires the building of a shopping center?

Mr. MARCUS. In this commitment there is on paragraph 9 specific conditions which I consider as the conditions upon which the commitment was issued. On there the conditions which are set forth and the commitment—they are some 27 in number—and in paragraph 26 it provides that—

the area reserved for business as shown on the drawing marked as revised by FHA, June 3, 1949, projects on 31-42131 to 42143, inclusive, shall be developed only after the approval of the plans and specifications and shall be in accordance with the following requirements—

and then they set forth A, B, C, D, E, and F, as the requirements.

When the application was submitted, this project was being built in a virgin territory and one of the conditions set forth in the plot planning and in the planning by the FHA was that there should be provided a shopping center. Otherwise, they felt that the tenancy would not be available in view of the fact that the area was entirely virgin and all of the plans indicated that they should have a shopping center. When the commitment came out, I took it—that is the condition for the issuance of the commitment that a shopping center would be built—

Mr. SIMON. Mr. Marcus, is that document you just read from the only piece of paper ever issued by FHA that you considered required the building of a shopping center?

Mr. MARCUS. As far as I know, yes.

Mr. SIMON. And doesn't the piece you just read to us say that the area shall be developed only after approval by FHA?

Mr. MARCUS. And it was approved by FHA.

Mr. SIMON. Is there anything in there which says it must be developed?

Mr. MARCUS. Well, I am not quibbling with words, Mr. Simon. I took it, in view of the entire development and in view of that, that that was a condition. We imposed it as a matter of fact in the deed restriction that ran with the land, that the shopping center as specified by the FHA shall be constructed.

Mr. SIMON. As a lawyer, do you consider the phrases synonymous which say you shall do something only with approval of a person, as the same and being synonymous as saying that you must do that thing?

Mr. MARCUS. I certainly think as a lawyer there is a distinction but in view of the circumstances in this particular project I felt that when they said it shall be developed with the approval of the FHA that they wanted a shopping center developed there and approved and the land planner for the FHA insisted that that area be reserved and set up for it.

Mr. SIMON. Orally or in writing?

Mr. MARCUS. No; on the plans.

Mr. SIMON. You said FHA insisted something.

Mr. MARCUS. Insofar as the plans and the approval of the plan. They insisted that the area would be set up and they didn't approve the final plans until the area and the shopping center was provided for and then the commitment came out with this particular requirement.

Mr. SIMON. Does the mortgage cover the shopping center?

Mr. MARCUS. It does not.

Mr. SIMON. The shopping center is free and clear of the mortgage?

Mr. MARCUS. That is correct, sir.

Mr. SIMON. Did FHA know that the shopping center was going to be built with funds coming from the FHA mortgage?

Mr. MARCUS. I wouldn't know, but I certainly didn't think so.

Mr. SIMON. You didn't think they knew that?

Mr. MARCUS. No.

Mr. SIMON. Wouldn't it have been more appropriate to have the shopping center covered in the FHA mortgage if the proceeds of the mortgage were being used to build it?

Mr. MARCUS. No; the proceeds of the mortgage came later, when this project was being developed by this developer. It was based upon replacement value of the building. That is, the housing rental units only, and the mortgage was based upon that. It wasn't based upon an additional shopping center. The only reason in my opinion they insisted upon a shopping center was to the effect that it would create an area and make it tenable. Otherwise, the tenants would not rent there because it was too far away from any transportation, shopping and so forth, so that when they were investing or insuring—I don't think they were investing, they were insuring a mortgage loan commitment—they wanted to be sure there would be a proper development there. They also wanted to be sure that there would be at least 5 or 6 buildings built at the same time.

Mr. SIMON. Is there any piece of paper in writing that says they wanted to be sure the shopping center was built, other than what I have read?

Mr. MARCUS. No.

Mr. SIMON. Isn't it a fact that the cost of building the buildings was \$2,500,000 less than the mortgage?

Mr. MARCUS. Mr. Simon, I heard it testified to that effect. I don't know. I am not part owner of the corporation, I am not a stockholder, or director.

Mr. SIMON. Don't you know \$1,300,000 was loaned out of the corporation to build this shopping center?

Mr. MARCUS. I heard it so testified and so stated to your committee.

Mr. SIMON. Don't you know that \$1,200,000 was used by Sarner to buy out Solow?

Mr. MARCUS. I heard it so stated to you and the facts and figures were given to you. I don't know personally. I didn't handle the transaction.

Mr. SIMON. Mr. Sarner and Mr. Solow were also partners in Teaneck Gardens, weren't they?

Mr. MARCUS. They were.

Mr. SIMON. That was another section 608 in the same area.

Mr. MARCUS. It is in the same county but in a different area—a different town.

Mr. SIMON. When that project was built, were you a part of an organization that collected some extra money from the tenants?

Mr. MARCUS. I wouldn't say extra money. I organized a corporation known as the Urban Realty Co.

Mr. SIMON. Who were the stockholders of Urban Realty Co.?

Mr. MARCUS. I was the principal stockholder.

Mr. SIMON. How much of the stock did you own?

Mr. MARCUS. I think it was 98 percent and I think there were 2 qualifying shares outstanding.

Mr. SIMON. Is it true that a tenant couldn't get an apartment in Teaneck Gardens without paying 5 percent of a year's rent commission to Urban Realty Co.?

Mr. MARCUS. I couldn't say that they couldn't but they were required to pay that as part of the developing and in consideration for that they also got venetian blinds.

Mr. SIMON. What is the difference between saying they weren't required to but they couldn't get an apartment without paying it?

Mr. MARCUS. They weren't required to rent an apartment there.

The CHAIRMAN. In other words, you mean they didn't have to rent an apartment, but if they did rent an apartment they had to pay the 5 percent?

Mr. MARCUS. They signed an agreement with me whereby they agreed to pay and in consideration—

The CHAIRMAN. Why would you, a lawyer, get into a racket like that?

Mr. MARCUS. Well, Senator, I don't like the word "racket."

The CHAIRMAN. I am going to call it a racket and I think it is a 1,000-percent racket and I think before we get through developing it you will be convinced yourself that it was.

Here you organized a company and made everybody—what was the year of this? What was the year?

Mr. MARCUS. I think it was 1948.

The CHAIRMAN. When apartments were hard to get. Housing accommodations were scarce. You organized a company, you owned it all, you are a lawyer, and you make people pay 5 percent—and this was a section 608 project, too.

Mr. MARCUS. That is right.

The CHAIRMAN. And under the law, the FHA set the rents, and they were based upon the 7 percent of the mortgage, and their actual expenses.

As far as I am personally concerned, this 5 percent you were getting was a racket.

What services did you render for that 5 percent?

Mr. MARCUS. I furnished venetian blinds for each apartment which was not required out of the commitment. I handled this application.

The CHAIRMAN. Whose application?

Mr. MARCUS. The tenant's application. I obtained credit reports.

The CHAIRMAN. Credit reports on whom?

Mr. MARCUS. On the tenants.

The CHAIRMAN. Do you mean you made these people pay 5 percent additional for your getting a credit report on them?

Mr. MARCUS. Yes. There were 3-year leases.

The CHAIRMAN. And if I was an applicant for one of the apartments I would have to pay you for getting a credit report on me?

Mr. MARCUS. Well, yes.

The CHAIRMAN. Well, if that isn't a racket I don't know one. Go ahead.

Mr. MARCUS. And we also prepared the leases, took care of any and all documents which were necessary in connection with the leasing of the property.

The CHAIRMAN. What else?

Mr. MARCUS. And we also managed the property.

The CHAIRMAN. Didn't the owners pay you for managing the property?

Mr. MARCUS. Under the owner's agreement we were to be paid after the properties were fully rented. We were then to receive 2½ percent for management.

The CHAIRMAN. Isn't it a fact that the Supreme Court of New Jersey made you give the money back and considered it as a racket and a violation of the law?

Mr. MARCUS. No, the supreme court did not, sir.

The CHAIRMAN. Who did?

Mr. MARCUS. The supreme court in the case of *Brinkman v. Urban Realty Company* ruled—the case came up for trial. The case was dismissed at the end of the plaintiff's case. It was appealed to the appellate division. The appellate division sustained the dismissal of the complaint at the end of the plaintiff's case. It went to the supreme court. The supreme court said that at the end of the plaintiff's case, the case should have been sent to the jury and remanded it for trial.

They indicated, in their opinion, that this being a section 608, that this extra charge might be construed as additional rent, and therefore—

The CHAIRMAN. Would there be any question about it?

Mr. MARCUS. I think there is. I don't always agree with the supreme court.

Mr. SIMON. Under our laws, though, they are the final arbitrator; aren't they?

Mr. MARCUS. So far as I am concerned, they are.

The CHAIRMAN. Go ahead.

Mr. MARCUS. When the case came back for retrial, the matter was adjusted.

The CHAIRMAN. Who owned these Teaneck Gardens?

Mr. MARCUS. Mr. Sarnier and Solow.

The CHAIRMAN. And the supreme court ordered you to return how much money?

Mr. MARCUS. The supreme court didn't order any amount of money to be returned. The court asked that the case be remanded for new trial. The defendant was never put on the stand in this case.

The CHAIRMAN. Did you return the money?

Mr. MARCUS. We settled it, sir.

The CHAIRMAN. How much did you settle it for?

Mr. MARCUS. I think we settled for around \$16,000.

The CHAIRMAN. What was the total amount you collected?

Mr. MARCUS. I would say approximately \$28,000.

The CHAIRMAN. How much did you settle for?

Mr. MARCUS. About \$16,000.

The CHAIRMAN. Who paid the \$16,000?

Mr. MARCUS. Sarner paid half and Solow paid half.

The CHAIRMAN. And yet you own, supposedly, 98 percent of the company and they own none. If they didn't own one single penny's worth of stock in this company, why did they, Sarner and Solow, pay out the \$16,000?

Mr. MARCUS. Because out of the proceeds of the \$28,000 that I received, I purchased for their benefit, or for the benefit of the operation, a motortruck for the garbage removal, venetian blinds, driers, and I estimated that the assets they received were in excess of the \$16,000, and I felt they ought to reimburse it because they were getting the benefit of it. Insofar as I am concerned, my total profit out of the entire transaction was less than \$2,000.

The CHAIRMAN. It would have been considerably more if you hadn't had to give back the \$16,000?

Mr. MARCUS. That \$16,000 was already disbursed and spent, Senator.

Mr. SIMON. Mr. Marcus, didn't only about half the tenants bring suit?

Mr. MARCUS. Well, I think there was only about half that paid. We stopped the practice.

Mr. SIMON. Didn't a number of tenants pay and not participate in the suit and didn't get any money back?

Mr. MARCUS. There may have been some.

The CHAIRMAN. You had no scruples about doing a thing like that, you had a clear conscience when you were taking these poor people who came in there to rent those section 608 projects? What was the monthly rental?

Mr. MARCUS. I think their rental ran from about \$85 or \$90 for three rooms; no, about \$80—

The CHAIRMAN. You sat down with this man and said, "Now you're going to have to pay me." You had no interest in the project. "You are going to have to pay me 5 percent of a year's rent."

Mr. MARCUS. Senator, there was a lot of promotion work to be done, we did a lot of advertising.

The CHAIRMAN. Advertising for what? Why should the tenant who wants to rent an apartment from you pay, in addition to \$85 a month, for the advertising?

Mr. MARCUS. There wasn't such a demand. We had vacancies there. We ran ads in the New York Times.

The CHAIRMAN. Why should a man coming in and wanting to rent an apartment have to pay you an additional 5 percent in order to get it? I think it was a racket.

Mr. MARCUS. I don't know. Under the law you have a right, either the tenant or a landlord, to pay the commission, and there was an agreement in writing. Nobody compelled them to sign the agreement. They signed the agreement in writing and agreed to pay it. I see no racket in it at all.

Senator PAYNE. Mr. Chairman, didn't the poor tenants also have to pay their rent, based not upon the construction of the apartment, itself, but they in turn had to pay rent to take care of the construction of the shopping center, plus the amount that was paid by one party to the other party.

The CHAIRMAN. That is a different project. What they did do here was that the FHA set the rent, based upon the amount of the section 608 mortgage, plus their operating expenses.

This gentleman comes along and he organizes a company which he owns and says to these people who make application for rentals, "You have got to pay me 5 percent of a year's rent before we will rent you an apartment."

And that was back in 1948 when apartments were hard to get. Then he tries to tell me it wasn't a racket. Well, I am not going to believe it. But what you say, of course, is true about the other project. We will get to that in a minute. In the project you are talking about they charged them \$40 for a television aerial whether they used it or not. This gentleman was part of that.

Senator PAYNE. They charged for a lot of other things, too.

Mr. MARCUS. Not I.

The CHAIRMAN. Well, your client did.

Mr. SIMON. Mr. Marcus, you testified about Urban Realty buying venetian blinds. Do you know whether Teaneck Gardens asked FHA for an increase in rent on account of the venetian blinds?

Mr. MARCUS. I don't know of any such request. I wouldn't know.

Mr. SIMON. We asked you about that on Monday. Have you made any effort between Monday and now to check into that?

Mr. MARCUS. No, I haven't.

Mr. SIMON. And you have no knowledge whether they didn't ask for an increase in rent based upon the same venetian blinds that your company furnished?

Mr. MARCUS. I don't have any knowledge as to whether they made any such request or whether there was such a request ever—

Senator PAYNE. Well, Mr. Marcus, if your outfit that you just mentioned, you own 98 percent of, was the outfit that was negotiating for the purpose of seeing that tenants had a chance to lease an apartment, you certainly were aware of the monthly rent that was being charged, weren't you, so that you were able to compute what your 5 percent of the year's total was to be?

Mr. MARCUS. That is right.

Senator PAYNE. If a rent went up you were aware of it, weren't you?

Mr. MARCUS. No rent went up as far as I know, at any time, in Teaneck Gardens, since the original establishment, so far as I know. Now, I don't handle the application for increase in rents but I know that during the time that I was there, there was never an increase.

Mr. SIMON. In Linwood Park wasn't every tenant required to pay \$40 for a television antenna even though he didn't have a television set?

Mr. MARCUS. I understand prior to the installation of the master antenna system, an application was made to the FHA for the approval of a charge for the installation of these antennas. FHA did, after considering the application made by Linwood Park, authorize the

charge of \$40 per apartment for the installation of the antenna, and specified that the charge should continue until the full cost of the antennas had been reimbursed, plus a 15-percent profit or overhead.

Mr. SIMON. Now, Mr. Marcus, how many section 608 projects did you handle as attorney in the State of New Jersey?

Mr. MARCUS. I would say around 40 or 50.

Mr. SIMON. Mr. Sarnier told us when you were with him in executive session, that you were the leading section 608 attorney in New Jersey. Is that right?

Mr. MARCUS. I wouldn't say I was the leading, I think I did as much section 608 work as any attorney in the State of New Jersey.

Mr. SIMON. In addition you personally owned, was it 5 or 6 section 608's.

Mr. MARCUS. Yes, sir.

Mr. SIMON. Which was it?

Mr. MARCUS. Six.

Mr. SIMON. I have before me the commitment and construction contract on Linwood Park No. 2. The commitment was for \$681,000 and the lump-sum construction contract was for \$639,500. Did you prepare that construction contract.

Mr. MARCUS. The probabilities are that I did.

Mr. SIMON. Now, if the construction contract had been lived up to and the contractor paid the amount of money called for by this contract, there couldn't have been any mortgaging out.

Mr. MARCUS. Not under this particular project.

Mr. SIMON. That is right.

Were these contracts abandoned or modified or changed?

Mr. MARCUS. My best recollection is that a resolution was adopted by these corporations after these commitments were closed, that instead of going on a lump-sum-contract basis, that they would go on a cost basis.

Mr. SIMON. Was FHA ever told about that?

Mr. MARCUS. I don't know. I didn't tell FHA, nor was there any modified contract ever placed on record.

Mr. SIMON. When you drafted this lump-sum contract, where did you get the figure to put in there for the construction cost?

Mr. MARCUS. We would generally call the FHA legal attorney and find out what the project or breakdown cost was, and would insert that—my secretary would insert that figure in a lump-sum contract.

Mr. SIMON. Why would FHA care about what the contract price was going to be?

Mr. MARCUS. They set up certain requirements in connection with the closing of the mortgage loan commitment.

I have here a form of the requirements that are sent out with the commitment, and a copy of the letter that is issued to me——

Mr. SIMON. One of them is this lump-sum contract?

Mr. MARCUS. One of them is the lump-sum contract.

Mr. SIMON. Why were they concerned with the amount or the price?

Mr. MARCUS. I wouldn't have the figures in the preparation of this agreement, and I would have my secretary call and obtain the necessary data for the preparation of these agreements.

Mr. SIMON. Why was the FHA interested in the construction price?

Mr. MARCUS. I never asked them why they were, but I know that we were required to insert that price in the construction contract which

corresponded to the breakdown payments, and that that was the requirement. I prepared the contracts and papers in accordance with the requirements, and I will say this to you, if there was a different amount I don't believe I would be able to recall the commitment.

Mr. SIMON. That is the point I am trying to make. You felt that FHA was going to insist on this price being in the contract.

Mr. MARCUS. Well, that is what I felt they wanted in that contract, and that is what they required in the contract.

Mr. SIMON. And then shortly after you got the commitment, you completely revised the deal and didn't tell FHA about it.

Mr. MARCUS. I didn't completely revise the deal, Mr. Simon.

Mr. SIMON. Didn't you draw the minutes of the directors' meeting at which they completely revised these?

Mr. MARCUS. I probably did.

Mr. SIMON. At least the deal was completely revised, wasn't it?

Mr. MARCUS. Insofar as the method of payment of costs is concerned, I would say yes.

Mr. SIMON. And you knew that FHA was concerned about the price because you got the price from them.

Mr. MARCUS. I don't think they were concerned about the price. They were concerned with seeing that the project was fully completed and built.

Mr. SIMON. Didn't you tell me a minute ago that you couldn't have closed the contract if this particular price hadn't been in the contract?

Mr. MARCUS. Well, those are the figures that the FHA gave you and you have to comply with their figures. You don't change their figures.

Mr. SIMON. But the fact is that you did change them; isn't that right?

Mr. MARCUS. By resolution I think they had a perfect right to modify that contract.

Mr. SIMON. Without telling FHA about it?

Mr. MARCUS. Yes, because FHA wasn't concerned at all any more. All that FHA was concerned about was that they had the proper indemnity. They knew the building project was going to be completed and they didn't care.

Mr. SIMON. Why was FHA concerned on one day, to make certain that you got this price in the contract, and then the next day completely unconcerned about how you modified it?

Mr. MARCUS. Mr. Simon, I can't tell you about the operation of the minds of the specific officers or directors of the FHA. All I can tell you is this, that when a commitment was issued, I was required to prepare the necessary papers to meet their requirements, which I did.

Mr. SIMON. And this was one of those requirements, wasn't it?

Mr. MARCUS. And one of these requirements was that there should be a lump-sum contract placed on record which was required not only by them, but by the lending institution and the title company.

Mr. SIMON. Is there any doubt in your mind that it was a fraud on FHA to give them this contract with the sum of money they insisted on, and then immediately after they issued the commitment, completely revise it?

Mr. MARCUS. I don't think there was any fraud upon FHA and no fraud has ever been committed upon FHA.

Mr. SIMON. Not on the part of FHA but I say wasn't it a fraud on FHA.

Mr. MARCUS. No; it was not a fraud upon FHA.

The CHAIRMAN. Did you notify FHA that you changed it?

Mr. MARCUS. I didn't notify them.

The CHAIRMAN. Did your clients?

Mr. MARCUS. No; I don't think they did.

The CHAIRMAN. And you don't consider that was wrong?

Mr. MARCUS. I don't consider that is wrong. You can modify a contract as long—

The CHAIRMAN. What sort of conscience do you have that you can say you don't consider that wrong?

Mr. MARCUS. I don't consider it wrong. In the first place, FHA never advanced any money. They got paid for their risk. They are getting paid for their insurance.

The CHAIRMAN. I know, but you told FHA that was white, and FHA, on the basis of your statement, went ahead and guaranteed the mortgage. Then, after FHA did that, the next day you changed this white to yellow, and you didn't notify them of it.

Mr. MARCUS. That is not so, sir.

The CHAIRMAN. That is what you testified to.

Mr. MARCUS. No, it isn't. FHA issues you a commitment. The commitment is based upon what they considered the replacement value of the construction of these buildings. They are insuring it. They are getting paid for the risk.

The contractor or the sponsors put up sufficient capital to guarantee that there will be a sufficient amount to complete the contract. If they can complete this contract for less than the amount specified in the commitment, that is perfectly all right.

Mr. SIMON. Mr. Marcus, why didn't you give FHA the true contract in the first place?

Mr. MARCUS. Because the FHA required a construction contract like this, as I explained to you.

Mr. SIMON. And they wouldn't have issued the commitment with the instrument contract?

Mr. MARCUS. The commitment was issued long before the closing.

Mr. SIMON. You couldn't have closed it if you had given them the true contract, could you?

Mr. MARCUS. I don't know whether I could or not. I said that I don't think I could vary the requirements of the FHA. Now, the FHA set forth that they wanted a lump-sum contract in accordance with a former number so-and-so, which we prepared. We got the figures and inserted them in the contract.

Mr. SIMON. Isn't it a fact that before you closed with FHA, it was your client's intention to build this project on the basis in which it was in fact built, of cost plus?

Mr. MARCUS. That I wouldn't know, and I don't think that was their intention. I wouldn't know what their intentions were, Mr. Simon.

Mr. SIMON. Didn't Mr. Sarnier so testify before this committee?

Mr. MARCUS. I don't know. I don't think so.

Mr. SIMON. You were there.

Mr. MARCUS. I was there and I heard some discussion with regard to that. Mr. Sarnier didn't testify, if you will recall. He gave you a

statement and we had a discussion. He said that after these commitments were closed that he intended to have it on a cost plus. He wasn't going to take it from one pocket and put it in another pocket because it was the same corporation.

Mr. SIMON. And it is your testimony that you don't think FHA would have closed it had you given them the cost-plus contract; is that right?

Mr. MARCUS. I think they would have required a cost-plus contract.

Mr. SIMON. That they would have required a cost-plus contract?

Mr. MARCUS. No, they would require a lump-sum contract. Excuse me.

Mr. SIMON. Are you familiar with the project analysis in these section 608 cases?

Mr. MARCUS. Well, generally they are sent to me and I go over it. I have nothing to do with the analysis or the project. All I do is prepare the necessary commitments. These project analyses are prepared long before, I think, the commitment is issued.

Mr. SIMON. Are you acquainted with the fact, Mr. Marcus, that in fixing the rents and estimating the annual requirements that FHA included as one of the factors, 6½ percent on the estimated cost of the property? Are you familiar with that fact?

Mr. MARCUS. I have a typical project analysis and I will look at it, if you like.

Mr. SIMON. Well, without studying it, are you personally familiar with the fact that FHA included in their rent schedule a factor of 6½ percent of the estimated cost of the project? Are you familiar with that fact, Mr. Marcus?

Mr. MARCUS. I am not familiar with those facts.

The CHAIRMAN. How many section 608 projects did you say you handled as an attorney in New Jersey?

Mr. MARCUS. About 40 or 50.

The CHAIRMAN. And you were never familiar with that fact?

And how many section 608 projects do you own, yourself?

Mr. MARCUS. I don't own any myself. I am associated with six projects.

The CHAIRMAN. You are a half owner, are you not?

Mr. MARCUS. That is right.

The CHAIRMAN. You were the sponsor and builder?

Mr. MARCUS. I was in some instances—in some instances I was the sponsor, and my associate and I were the builders.

The CHAIRMAN. Six projects, and you don't know the answer to the question just asked you?

Mr. MARCUS. I think that each project analysis is based entirely upon the income, the prospective income, the prospective costs, the replacement value, and the final determination as to give you a proper return for your investment.

Mr. SIMON. Mr. Marcus, the figures used in these lump-sum contracts were such, were they not, that when the cost of the land was added and the FHA fees were added, the total cost of the project would have been in excess of the mortgage; is that right?

Mr. MARCUS. Yes.

Mr. SIMON. And as it turned out, under the cost-plus contract, the total costs were \$2,500,000 less than the mortgage?

Mr. MARCUS. Approximately. I don't know the figures. Whatever the figures were that were given to you, Mr. Simon.

Mr. SIMON. But the point is that the difference between the lump-sum contracts which were submitted to FHA, and the cost-plus contracts under which the buildings were built, the difference was at least \$2,500,000, wasn't it?

Mr. MARCUS. Now, let me explain that to you.

Mr. SIMON. Well, is that true?

Mr. MARCUS. Not in the way you put it. As I understand it, they anticipated that the cost would be at least what the FHA figured, based upon the cost. Operating it on their own cost system they were able to produce these projects for a considerable amount less than what the estimated cost was, as contained in the lump-sum contracts.

Mr. SIMON. My question was whether the money they paid under the cost-plus contract was not in excess of \$2,500,000 less than the money called for in the lump-sum contracts.

Mr. MARCUS. Well, they were the same corporations, I think, and insofar as I am concerned, they build these projects on the basis of what it would actually cost them if the rest of it was retained by these corporations.

Mr. SIMON. Mr. Marcus, perhaps I don't make myself clear, but we start out with the Sarnier-Solow Construction Co. as a builder; is that correct?

Mr. MARCUS. That is correct.

Mr. SIMON. You have 13 contracts with Linwood Park, sections 1 to 13, each making a contract with Sarnier & Solow Construction Co.?

Mr. MARCUS. That is correct.

Mr. SIMON. And each of those contracts called for a lump-sum payment; is that right?

Mr. MARCUS. That is right.

Mr. SIMON. And the mortgage here is roughly \$8 million?

Mr. MARCUS. Approximately.

Mr. SIMON. And the total of those contracts is in excess of the \$8 million, if you add to it the filing fees and interest during construction and so on; is that right?

Mr. MARCUS. If you add all of the charges, as indicated by the FHA, it would exceed or should exceed at least 10 percent over and above the cost.

Mr. SIMON. 10 percent over \$8 million, so it would be close to \$9 million; is that right?

Mr. MARCUS. Well, I couldn't estimate. It would be——

Mr. SIMON. Well, \$8,800,000, anyway.

Mr. MARCUS. Well, they should have at least 10 percent for working capital.

Mr. SIMON. The fact is that the buildings were built under these cost-plus contracts?

Mr. MARCUS. That is right.

Mr. SIMON. And isn't it a fact that under the cost-plus contracts, these Linwood Park Corps., Nos. 1 to 13, paid Sarnier and Solow \$2,500,000 less than the amount of the mortgage?

Mr. MARCUS. Approximately, that is the amount.

Mr. SIMON. And that would be at least \$3 million less than the amount the original contracts called for; isn't that right?

Mr. MARCUS. I haven't yet calculated what all the contracts called for and I can't answer yes or no to that. The figures speak for themselves, and I think whatever the figures are, that is it.

Mr. SIMON. It is certainly at least \$2.5 million less; isn't it?

Mr. MARCUS. That is what you said, approximately.

Mr. SIMON. Isn't it?

Mr. MARCUS. Yes, I think so.

Mr. SIMON. Mr. Marcus, in addition to the section 608's that you owned and the section 608's you represented, did you have any other business in National Housing Act matters?

Mr. MARCUS. Yes.

Mr. SIMON. Did you represent people having title I problems?

Mr. MARCUS. No, sir. I did represent at one time, for a short period of time, a client from Newark, some corporations that were operating I think in North Bergen, N. J., who came in and said that they had been requested to appear at the prosecutor's office in Bergen County in connection with some title I work that they have done.

Mr. SIMON. I show you, Mr. Marcus, three photostats of notices from the Bergen County prosecutor's office, and ask you whether they were accepted by you.

Mr. MARCUS. Yes.

Mr. SIMON. And who were the clients under indictment?

Mr. MARCUS. The Protexa-wall Products, Inc., a Louis S. Garthson, and Interstate Applicators.

Mr. SIMON. And they pleaded guilty to fraud under the New Jersey law, didn't they?

Mr. MARCUS. I withdrew from the case after they were indicted, and arranged for bail. They hired other counsel. I advised them I was not a criminal lawyer. I thought it was in connection with some construction work that I specialized in, but when I found out they were indicted, I told them they would have to get other counsel, and I understand other counsel was the one that appeared and pleaded guilty for them. I don't know.

Mr. SIMON. After they hired criminal lawyers, as you suggested, they did plead guilty of the fraud?

Mr. MARCUS. I didn't see them after the arrangement of bail.

Mr. SIMON. I thought you said you suggested they hire criminal lawyers.

Mr. MARCUS. I told them, after I arranged for bail, that as long as they had been indicated that they ought to hire a criminal lawyer. I am not in the practice of criminal law.

Mr. SIMON. After they did hire criminal lawyers, they did plead guilty to fraud?

Mr. MARCUS. I don't know what they did. They weren't in my office and I made no arrangements for them, excepting arrangements for the bail.

Mr. SIMON. Where do you live?

Mr. MARCUS. Teaneck, N. J.

Mr. SIMON. How far is that from Hackensack?

Mr. MARCUS. I would say about 5 miles.

Mr. SIMON. Where is the Bergen County seat?

Mr. MARCUS. In the city of Hackensack.

Mr. SIMON. And you didn't even read in the newspapers whether these people pleaded guilty?

Mr. MARCUS. I can't say whether I remember reading about it or not. I do know the matter was in some way disposed of. I didn't represent them. I don't know what arrangements they made.

Mr. SIMON. Do you know whether they pleaded guilty?

Mr. MARCUS. I personally don't know. I never looked at the record and I wouldn't know whether they did or didn't.

Mr. SIMON. Do you know whether all three of them were operating the home repair racket, the model home and all the other pitches?

Mr. MARCUS. I have never seen them, except in that instance. I didn't know their business and didn't know what they were until I found out that—

The CHAIRMAN. Did you ever do any legal work for them before they got into trouble?

Mr. MARCUS. No, sir.

The CHAIRMAN. How does it come they came to you when they got into trouble?

Mr. MARCUS. I think they were recommended to me by a New York attorney, if I am not mistaken.

The CHAIRMAN. Was it because you had had so many dealings with FHA?

Mr. MARCUS. No, sir; I didn't even know what their trouble was.

The CHAIRMAN. Just what did you do for them?

Mr. MARCUS. When they came in, I got a statement of facts as to what their problem was. They said they had been doing some work in Bergen County and there had been some complaints about their work and some people had demanded return of their money.

I told them I would find out the status of it. They told me they had apparently been at the prosecutor's office in Bergen County. I went down to the prosecutor's office and I was told they were about to be indicted. I told them I appeared for them and let me know if anything happens. When they were indicted, I told them I was not at all interested in the matter.

The CHAIRMAN. How much did they pay you for that service?

Mr. MARCUS. I think it was a \$200 or \$250 retainer.

The CHAIRMAN. Do you know Mr. Nicol?

Mr. MARCUS. I think he is a financial expert in the prosecutor's office.

The CHAIRMAN. Did you have anything to do with him getting fired in the last 2 days as a result of his testimony?

Mr. MARCUS. I am not a politician. I have nothing to do with it.

The CHAIRMAN. You had nothing to do with it?

Mr. MARCUS. No, sir.

The CHAIRMAN. Did you know he was fired?

Mr. MARCUS. I did not, no.

The CHAIRMAN. You didn't know it until I just told you?

Mr. MARCUS. That is correct.

The CHAIRMAN. And that is all the services you rendered for these people?

Mr. MARCUS. That is all the services I rendered.

The CHAIRMAN. You do not know whether they were later convicted or not, or made settlement?

Mr. MARCUS. I don't know what they did, sir. I know that the Newark attorney represented them. I told them I was out of the pic-

ture as soon as the bail was arranged. I felt I was morally obligated to see that they were out on bail.

The CHAIRMAN. Getting back to this Urban company collecting this 5 percent from people who wanted to rent apartments, has that company since been dissolved?

Mr. MARCUS. It has been.

Mr. SIMON. Mr. Marcus, would you give us the six section 608 projects you have a personal interest in?

Mr. MARCUS. The ones I built.

Leonia Gardens. That is in Bergen County.

Dumont Terrace Apartments. I sold those—those were sold.

Cambridge Apartments, in Newark.

Mount Prospect Gardens, in Newark.

Franklin Manor in Bloomfield.

And then we built a minority housing project in the city of Newark, called the Urban Manor Apartments.

Mr. SIMON. Now, were you a stockholder or partner in Marcus & Vogel Construction Co.?

Mr. MARCUS. I am.

Mr. SIMON. Is that a construction company that built these six projects?

Mr. MARCUS. I think Marcus & Vogel Construction Co. was organized after we finished either Leonia Gardens or Dumont Terrace Apartments.

Mr. SIMON. Who built those two?

Mr. MARCUS. Theodore J. Vogel, who was with me associated, but I think he built them in his own name as the contractor.

Mr. SIMON. Did you own 50 percent of the stock in each of these 6 sponsoring corporations?

Mr. MARCUS. Yes.

Mr. SIMON. And Mr. Vogel owned the other 50 percent?

Mr. MARCUS. That is right.

Mr. SIMON. How much stock did you own in the construction company?

Mr. MARCUS. Fifty percent.

Mr. SIMON. In any of these six projects, did the mortgage exceed the cost of construction, to the construction company—not to the sponsoring company, but to the construction company?

Mr. MARCUS. That is very difficult to say, for this reason, that we had what I considered a consolidated return. We operated these companies under the Marcus & Vogel Construction Co. Whether or not I can tell you whether the sponsoring corporation had an excess over the mortgage and it remained in the corporation, that is in the records of the company.

Mr. SIMON. I would like to know if Marcus & Vogel Construction Co. had a profit out of the project, too.

Mr. MARCUS. Our certified public accountant who handled the books and records of these corporations is more familiar with this, and I asked him to come down, at your suggestion.

The CHAIRMAN. Will you be sworn, sir. Give your name to the reporter.

Mr. RATNER. Morris Ratner.

The CHAIRMAN. You are an accountant?

Mr. RATNER. Yes, sir.

The CHAIRMAN. A CPA?

Mr. RATNER. Yes, sir.

The CHAIRMAN. From where?

Mr. RATNER. New York.

The CHAIRMAN. New York City?

Mr. RATNER. Yes, sir.

The CHAIRMAN. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. RATNER. I do.

The CHAIRMAN. How long have you handled the books for Mr. Marcus? Marcus & Vogel?

Mr. RATNER. A little over 3 years.

The CHAIRMAN. Going back to about 1951?

Mr. RATNER. Yes, sir.

Mr. SIMON. When were these projects built, Mr. Marcus?

Mr. MARCUS. Some of them were built in 1948, 1949, and 1950, and I think one was finished in 1951.

Mr. SIMON. Which one was that?

Mr. MARCUS. I think the last one was Urban Manor.

The CHAIRMAN. What was the capital stock in each of these corporations? The original capital stock?

Mr. MARCUS. Would you mind if Mr. Ratner answered that?

The CHAIRMAN. He may, if he has the facts.

Mr. MARCUS. He has the facts.

Mr. RATNER. Cambridge was \$10,000; Mount Prospect was \$5,000; Franklin Manor, \$5,000; Leonia Gardens, \$33,500; Urban Manor, \$1,000; Dumont Terrace, \$50,000.

Mr. SIMON. How much was paid for the land in each of those projects?

Mr. RATNER. Cambridge, \$80,878.

Mr. SIMON. From whom was that purchased, Mr. Marcus?

(No response.)

Mr. SIMON. Was \$80,000 paid to a complete stranger?

Mr. MARCUS. A complete stranger.

Mr. SIMON. The next one, Mr. Ratner.

Mr. RATNER. Mount Prospect, \$43,400.

Mr. SIMON. Is that a complete stranger?

Mr. MARCUS. A complete stranger, who had nothing to do with any of our corporations.

Mr. RATNER. Franklin County, \$82,000.

Mr. SIMON. A complete stranger?

Mr. MARCUS. Yes.

Mr. RATNER. Leonia Gardens, \$20,325.

Mr. SIMON. A complete stranger?

Mr. MARCUS. Yes.

Mr. RATNER. Urban Manor, \$20,000.

Mr. SIMON. A complete stranger?

Mr. MARCUS. Yes.

Mr. RATNER. Dumont Terrace, \$35,000.

Mr. SIMON. A complete stranger?

Mr. MARCUS. Yes.

Mr. SIMON. Was the previous stock you have testified about paid in cash or was it paid in land?

Mr. MARCUS. It was either cash or a form of credits and services.

The CHAIRMAN. Let's find out how much was services because services takes in a lot of territory.

Do you know or do you have the record there? For example, give us an example. Did you say that \$50,000 was put in one?

Mr. SIMON. Dumont.

Mr. RATNER. Yes, sir.

The CHAIRMAN. How much of that was cash?

Mr. RATNER. It is hard to give a direct answer to that for only one reason. There was a lot of cash put into the corporation in the form of loans when working capital was required.

The CHAIRMAN. This \$60,000, was this capital or loans?

Mr. RATNER. If you will let me answer it.

The CHAIRMAN. All right.

Mr. RATNER. There was a lot of loans put into the corporation when capital was required.

Mr. SIMON. Was that paid back?

Mr. RATNER. Yes. And when the capital account was set up, the loan account was charged with \$50,000 for the capital, but in addition there was \$64,000 set up as builder's fees in this corporation.

Mr. SIMON. To whom was that paid?

Mr. RATNER. That was paid to three individuals.

Mr. SIMON. Who were they?

Mr. RATNER. Mr. Marcus, Mr. Vogel, and Mr. Jack Marcus.

Mr. SIMON. Mr. Marcus, Mr. Vogel, and Mr. Jack Marcus.

Mr. RATNER. Yes.

Mr. SIMON. Who is Jack Marcus?

Mr. MARCUS. That is a brother of mine.

Mr. SIMON. Is he a builder?

Mr. MARCUS. No, sir.

Mr. SIMON. But you and Vogel and your brother, Jack, got \$64,000 builders' fees?

Mr. RATNER. Yes.

Mr. SIMON. How was that divided?

Mr. RATNER. Equally, three ways; yes, sir.

Senator PAYNE. Mr. Chairman, if I may, I would like to ask one question.

The CHAIRMAN. Yes, sir.

Senator PAYNE. In arriving at these figures that you were citing here, are those figures as a result of your analysis of the books of the corporations?

Mr. RATNER. Yes, sir.

Senator PAYNE. In analyzing the books of the corporation, did you at the same time use for verification purposes, the checkbooks and all official records of the company and verify the bank deposits and disbursements?

Mr. RATNER. Let me answer that this way. Many of these transactions transpired prior to the time I came into the picture, but at Mr. Marcus' request, he asked me to check these records and check the figures to see just what the story was. In the past several days I have done just that. We haven't gone back to the original records

as far as canceled checks are concerned, because that would have been impossible physically, but we did go back to the actual books of account.

Senator PAYNE. You went to the books of record?

Mr. RATNER. Yes, sir.

Senator PAYNE. But you did not go back to the point of verifying the actual cash deposits and withdrawals, so that you could certify to the fact that those figures that are being given are, in effect, the true figures as reflected by cash receipts and cash disbursements, is that correct?

Mr. RATNER. I might answer it this way. It isn't necessary to go back to the original checks to certify to those figures. I went back far enough to satisfy myself that these are the correct figures.

Senator PAYNE. To the actual checkbooks?

Mr. RATNER. No, it isn't necessary to go to the checkbooks to satisfy yourself that an entry is correct.

Senator PAYNE. Now, I might question that just a little bit.

Mr. RATNER. I am the accountant, Senator.

Senator PAYNE. I appreciate that, but I might question that just a little bit because I have seen books of record, many times, that do not actually reflect, upon checking back to actual sources of income and expense—namely, deposits and checks—the true facts as reflected on the books.

Mr. RATNER. That is why I made the statement. I went back far enough and checked far enough to satisfy myself that these are the correct figures.

Senator PAYNE. O. K., if you are satisfied.

Mr. SIMON. Mr. Ratner, going back to Dumont, what was the amount of the mortgage? The original mortgage.

Mr. RATNER. There were two mortgages on Dumont.

Mr. SIMON. What was the total amount?

Mr. RATNER. \$1,920,000.

Mr. SIMON. What was the actual cost of construction, excluding any fees or services or anything else, to Mr. Marcus and Mr. Vogel, their friends and relatives?

Mr. RATNER. Are you asking that exclusive of the land?

Mr. SIMON. No, including the land and including any interest—any money they have actually paid out for interest, FHA fees or the land, but not including what they paid themselves or their relatives.

Mr. RATNER. \$2,007,211.

Mr. SIMON. In Leonia Gardens, what was the amount of the mortgage?

Mr. RATNER. \$275,000.

Mr. SIMON. What was the actual cost of construction, including the land, but excluding anything they paid themselves or their relatives?

Mr. RATNER. \$277,453.

Mr. SIMON. Cambridge. What was the amount of the mortgage?

Mr. RATNER. \$1,095,500.

Mr. SIMON. What was the actual cost of construction, including the land and interest, but excluding anything they paid themselves or their relatives?

Mr. RATNER. \$1,149,877.

Mr. SIMON. Mount Prospect. The amount of the mortgage.

Mr. RATNER. \$721,000.

Mr. SIMON. And the actual construction cost, excluding what they paid themselves?

Mr. RATNER. \$635,659.

Mr. SIMON. Franklin Manor?

Mr. RATNER. The mortgage was \$693,000.

Mr. SIMON. The actual construction costs.

Mr. RATNER. \$631,593.

Mr. SIMON. And the urban property?

Mr. RATNER. The mortgage was \$223,000.

Mr. SIMON. And the actual cost.

Mr. RATNER. \$257,484.

Mr. SIMON. When was the Dumont built, Mr. Marcus?

Mr. MARCUS. It was built during the years of 1948 and 1949.

Mr. SIMON. And in that one you left \$87,000?

Mr. MARCUS. Approximately.

Mr. SIMON. When was Leonia built?

Mr. MARCUS. I think it was built in the latter part of 1947 and the early part of 1948.

Mr. SIMON. And in that you left \$2,000?

Mr. MARCUS. Approximately.

Mr. SIMON. When was Cambridge built?

Mr. MARCUS. That was built in 1949.

Mr. SIMON. And there you left \$54,000?

Mr. MARCUS. That is right.

Mr. SIMON. When was Mount Prospect built?

Mr. MARCUS. 1950.

Mr. SIMON. And there you picked up \$86,000?

Mr. MARCUS. Approximately.

Mr. SIMON. When was Franklin Manor built?

Mr. MARCUS. 1950.

Mr. SIMON. And there you picked up \$62,000?

Mr. MARCUS. That is right.

Mr. SIMON. When was the Urban property built?

Mr. MARCUS. 1950.

Mr. SIMON. And there you left about \$34,000.

Mr. Marcus, excluding that Urban property, your five other projects seemed to follow the pattern of every other case we have had, which is that in 1947 and 1948 and 1949, people didn't mortgage out and the project generally cost more than the mortgage, and in 1950 and 1951, everybody or almost everybody seemed to be able to mortgage out.

Mr. MARCUS. Except that I didn't mortgage out in Urban Manor.

Mr. SIMON. Can you give me any explanation of why in 1947, 1948, and 1949 you weren't mortgaging out, and you did in 1950?

Mr. MARCUS. I am giving you what I consider my best explanation for it. I don't know whether that is a true explanation. There was a lot of construction cost immediately after the war which was high, and there was a lot of section 608 apartment houses being built in 1947, 1948, and 1949, the subcontractors having a lot of work, always peg up their prices. When there was a little bit of a lull in 1949 and

1950, I think we could buy cheaper than what we could do in 1948 and 1949, and by that time I think we did a little bit more of our own work; we had had the experience at that time, and I believe we were able to reduce our costs considerably.

Mr. SIMON. Is that another way of saying that in 1949 and 1950, material costs dropped and FHA was not alert to the decline in building prices, and continued at the old levels?

Mr. MARCUS. I can't say whether they were alert or did have knowledge of that. All I know is this, that I was able to buy some of the jobs cheaper in 1950—some subcontractors cheaper in 1950 than I was in 1948 and 1949.

Mr. SIMON. Adding up all these projects you apparently built \$5 million worth of buildings and left in \$29,000 of your own money; is that right?

Mr. MARCUS. That isn't so.

Mr. SIMON. Mr. Ratner, does that confirm your figures?

Mr. RATNER. I haven't added it.

Mr. SIMON. In Dumont he left in \$87,000; is that right?

Mr. MARCUS. Did you say \$29,000 or \$129,000?

Mr. SIMON. \$29,000; \$87,000 left in Dumont; is that right?

Mr. RATNER. Yes.

Mr. SIMON. \$2,000 left in Leonia; is that right?

Mr. RATNER. Yes.

Mr. SIMON. \$54,000 left in Cambridge?

Mr. RATNER. That is right.

Mr. SIMON. Is that correct?

Mr. RATNER. That is correct.

Mr. SIMON. \$34,000 left in Urban? Is that right?

Mr. RATNER. Yes.

Mr. SIMON. Does that total \$177,000?

Mr. RATNER. Correct.

Mr. SIMON. Picked up \$86,000 in Mount Prospect; is that right?

Mr. RATNER. Yes.

Mr. SIMON. Picked up \$62,000 in Franklin Manor. Is that right?

Mr. RATNER. Yes.

Mr. SIMON. That is \$148,000; isn't it?

Mr. RATNER. Yes.

Mr. SIMON. Subtract \$148,000 from \$177,000 and you get \$29,000; is that right?

Mr. RATNER. That is correct.

Mr. SIMON. Don't the six projects total roughly \$5 million?

Mr. RATNER. That is correct.

Mr. SIMON. So they built \$5 million worth of buildings and left in \$29,000 of his own money; is that right?

Mr. RATNER. That is what was left over, insofar as excess of costs is concerned.

Mr. SIMON. The \$5 million worth of buildings cost him \$29,000 more than the mortgages. Is that right?

Mr. MARCUS. That isn't a fair statement, Mr. Simon, because in the first place the \$5 million worth of buildings, we already had, before the other two projects, over \$170,000 of capital invested. If the market didn't decline—

Mr. SIMON. Wait a minute. That is not accurate. Regardless of how much capital you had invested, isn't it a fact that the \$5 million worth of buildings cost you only \$29,000 more than the mortgages?

Mr. MARCUS. Based upon those figures, yes. Without any fees and without any charges.

Mr. SIMON. Well, are the facts true?

Mr. MARCUS. Your conclusion is correct.

Mr. SIMON. And so far as you are concerned, I take it that you couldn't conscientiously earn a builder's fee; could you?

Mr. MARCUS. If I was associated and financed the builder, I am entitled to half of the builders' fees, certainly.

Mr. SIMON. You don't think you have to be a builder and know how to build a building before you earn a builder's fee?

Mr. MARCUS. Well, we—the reason I made the investment with Mr. Vogel and put him into the construction business was so I could earn a fee and so that we could take contracts and make a profit on construction.

Mr. SIMON. In other words, in representing these 40 or 50 section 608 clients, you thought this was a good thing and you wanted to get into it, too?

Mr. MARCUS. I think it was a desirable thing. I felt that I could do as well as some other builders and there was no reason why I couldn't.

As a matter of fact, Mr. Simon, you know the FHA had regional meetings encouraging builders, asking them to come in and build these projects and made all kinds of inducements and indicated to them that they could build these projects, provide housing and as a result of that you got your housing. You got close to 1 million units a year.

Mr. SIMON. Did you attend any of these meetings where FHA officials either said outright or at least inferred that you could build section 608 buildings without putting up any of your own money?

Mr. MARCUS. I attended meetings where they said it was possible to build these section 608's, and a good builder could build it and have a profit on the operation of the building. I wouldn't say that they said you could build it for less than the mortgage or more than the mortgage. I knew that I had to put in some additional front money or capital in order to get these projects started.

Mr. SIMON. We had been told that some FHA people made speeches saying that you could build these buildings without putting in any of your own money.

Mr. MARCUS. I have attended several meetings, I am counsel for the Builders Association of Northern New Jersey. I have arranged and sponsored some of these regional meetings. We held them in Newark, we held them in Hackensack, we held them in Teaneck, where FHA officials would come in and explain the new orders and new directives as the statutes were enacted and the possibilities in building and their prime purpose was to provide rental housing, and I think they have done a job in doing it.

I further think that insofar as the FHA is concerned, I think they did a fairly good job in most localities. Of course, there are always abuses in some instances, but I think they got the rental housing, they provided rental housing, and I think at a fair rental.

The CHAIRMAN. Will you give me the capital invested in each of those corporations again?

Mr. RATNER. Leonia Gardens, \$33,500; Cambridge, \$10,000; Mount Prospect, \$5,000; Franklin Manor, \$5,000; Urban Manor, \$1,000; Dumont Terrace, \$50,000

The CHAIRMAN. What was the amount of the mortgage on the \$1,000 one?

Mr. MARCUS. \$223,000.

Mr. SIMON. Did you testify that that wasn't necessarily all cash that you just read, that part of it was for services?

Mr. MARCUS. I would say it was all cash except in Dumont Terrace.

The CHAIRMAN. And two of them were \$5,000 each and one was \$1,000?

Mr. MARCUS. Yes, sir.

The CHAIRMAN. Mr. Marcus, when you were here before and were so abusive to myself and this committee, I want to read what you said:

As I was sitting here, whereby, by inference and innuendoes you appear on the record—

that is referring to me—

that a fellow who forms a corporation with a mere capital of \$3,000 can build a big project. Now, you yourself know that that can't be done. You know that you have to put up capital.

The CHAIRMAN—

that was me—

Wait a minute. It was done.

Mr. MARCUS. It wasn't done, sir.

And at the time you made that statement, you yourself knew that you had done it.

Mr. MARCUS. That wasn't all the money that was put up, sir.

The CHAIRMAN. It was capital.

Are you a lawyer?

Mr. MARCUS. Yes.

The CHAIRMAN. How long have you been a lawyer?

Mr. MARCUS. Twenty-seven years.

The CHAIRMAN. Is the amount this gentleman just read, was that all the capital invested in these corporations?

Mr. MARCUS. That is capital stock subscribed to.

The CHAIRMAN. Well, that is the capital of the corporation?

Mr. MARCUS. It is the capital of the corporation but the corporation has borrowed—

The CHAIRMAN. The other moneys you put up were loans repaid out of the proceeds of the mortgage, were they not?

Mr. MARCUS. Yes.

Mr. SIMON. And what he read was the capital.

Mr. MARCUS. That is correct.

Mr. SIMON. Then why did you make that foolish statement when you were here before?

Mr. MARCUS. Well, the reason—

Mr. SIMON. And another thing, why didn't you tell us when you were here before in executive session—I presume your answer is going to be that we didn't ask you—you were here as the attorney for Mr. Sarnier but you at no time intimated to us, then, that you, yourself, were the half owner in six section 608 projects.

Mr. MARCUS. No question was asked about it. As a matter of fact, I indicated that I knew a good deal about section 608's and that is why I probably made that statement that \$3,000 capital doesn't really—

The CHAIRMAN. I still don't understand why, when you were here and were so abusive, that you were abusive on the point of something where—well, let's read it again:

As I was sitting here, whereby, by inference and innuendoes you appear on the record—

that is meaning me—

that a fellow who forms a corporation with a mere capital of \$3,000 can build a big project. Now, you, yourself, know that that can't be done. You know that you have to put up capital.

The CHAIRMAN. Wait a minute. It was done.

Mr. MARCUS. It wasn't done, sir.

Mr. MARCUS. I shouldn't have used the word "capital." You have to put up cash.

The CHAIRMAN. I was talking about capital. I know the difference between capital and loans. Of course you loaned yourself a lot of money. You borrowed a lot of money and you paid it back out of the proceeds of the mortgage, but I am talking about capital invested in these projects.

Mr. MARCUS. Well, Senator, if I have said anything that was abusive, I am sorry for it. I have indicated that to you.

The CHAIRMAN. I don't care whether you apologize or not. I just wanted to prove to you that you were wrong, and that you were very unnecessarily abusive to us, because you were leaving the wrong impression with people. It is the same story that people get abusive to committees when they ought not to, because in this instance we have proven to you by your own figures that you, yourself, were participating in six section 608 projects. One of them was with as little as \$1,000 in capital, and two of them, \$5,000 in capital. Yet had we let it go unchallenged and hadn't had you back here today the impression would have gone out or did go out, that this committee was, as you said—you said, "shooting off our mouths."

Mr. MARCUS. Perhaps in the heat of the argument I did say those things.

The CHAIRMAN. There is no question but what you said them.

Mr. MARCUS. There is no question about it, sir, and there is no question that I have a great deal of respect for your services.

The CHAIRMAN. You are now willing to admit you were wrong with respect to capital?

Mr. MARCUS. That is correct.

The CHAIRMAN. Thank you very much.

Will you furnish this committee—you testified that you were the attorney for 40 or 50 section 608 projects. Senator Payne has suggested, and I think rightfully so, that you furnish to us for the record, all of the section 608 projects you were attorney for, a list of them and the fees you received for each.

Mr. MARCUS. May I mail that in to the committee at a reasonable time?

The CHAIRMAN. You mail it in to us.

(The information referred to follows:)

George I. Marcus—Schedule of fees and disbursements in connection with the 608 mortgage loan closings

Name of company	Amount received	Disbursements	Net fee
Brookchester, Inc.:			
Section 1.....	\$5,425.00	\$1,907.90	\$3,517.10
Section 2.....	5,400.00	1,879.40	3,520.60
Section 3.....	7,037.50	2,401.70	4,635.80
Section 4.....	4,155.00	1,510.15	2,644.85
Section 5.....	6,752.50	2,313.25	4,439.25
Section 6.....	7,300.00	2,469.45	4,830.55
Section 7.....	5,890.00	2,047.05	3,842.95
Section 8.....	4,320.00	1,565.25	2,754.75
Section 9.....	6,522.50	2,265.90	4,256.60
Section 10.....	4,262.50	1,543.30	2,719.20
Cedar Grove Apartments, Inc.....	2,260.00	971.80	1,288.20
The Cambridge, Inc.....	1,500.00	-----	1,500.00
David Gardens, Inc.....	2,000.00	-----	2,000.00
Franklin Manor, Inc.....	2,000.00	1,857.50	142.50
Leonla Garden Apartments, Inc.....	1,500.00	-----	1,500.00
Linwood Park, Inc., sections 1 to 13, inclusive.....	41,650.00	18,148.93	23,501.07
Mount Prospect Gardens, Inc.....	3,500.00	1,445.63	2,054.37
Merritt Gardens Apartments, Inc.....	3,750.00	-----	3,750.00
Plateau Gardens, Inc.....	5,500.00	-----	5,500.00
Section 2.....	3,490.00	-----	3,490.00
Richfield Village:			
Section 1.....	3,315.00	1,366.03	1,948.97
Section 2.....	3,887.50	1,260.25	2,627.25
Section 3.....	7,750.00	2,447.24	5,302.76
Section 4.....	3,697.50	1,188.50	2,509.00
Section 5.....	4,742.50	1,545.00	3,197.50
Section 6.....	7,550.00	2,365.50	5,184.50
Section 7.....	5,247.50	1,835.18	3,412.32
Section 8.....	3,250.00	1,197.75	2,052.25
Suburban Terrace Apartments:			
Section 1.....	1,442.50	-----	1,442.50
Section 2.....	1,662.50	-----	1,662.50
Section 3.....	972.50	-----	972.50
Section 4.....	1,010.00	-----	1,010.00
Stevens Gardens, Inc.....	6,000.00	1,262.28	4,737.72
Teaneck Gardens, Inc.....	14,050.00	-----	14,050.00
Wright Village, Inc.....	21,495.00	8,018.08	13,476.92
Washington Manor, Inc.....	3,000.00	-----	3,000.00
Total.....	213,287.50	64,813.02	148,474.48

Mr. MARCUS. And may I also ask your indulgence. I am on my vacation now and won't be back to the office until about the 15th.

The CHAIRMAN. Of when?

Mr. MARCUS. Of August.

The CHAIRMAN. If you get it to us by the 1st of September, it will be all right.

Mr. MARCUS. Thank you very much.

The CHAIRMAN. Thank you, unless there are further questions.

If not, as far as the FHA investigation is concerned, we will stand recessed, excepting that at 10 o'clock next Tuesday a subcommittee which the committee authorized this morning to go into community facilities, will have an open meeting at 10 o'clock. That subcommittee is going into community facilities and we will no doubt appoint some other subcommittees from time to time to consider other phases of this investigation. It is getting too heavy for myself to handle, for one chairman to handle. It is too much work for one man to handle.

We will now recess until 10 o'clock next Tuesday, at which time a subcommittee will hear testimony on a Lawrence, Ind., community facility project.

(Whereupon, at 12:05 p. m., the committee recessed.)

FHA INVESTIGATION

TUESDAY, AUGUST 10, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, at 10:10 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart and Bush.

Also present: William Simon, general counsel, FHA Investigation.

The CHAIRMAN. The committee will come to order. Our first witness was to be the former Mrs. Ruth Woodner. She will be about 30 minutes late because her airplane arrival from New York has been delayed. The plane is at the airport now.

We will take Mr. Charles Von Hausen.

Do you solemnly swear the testimony your are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF CHARLES VON HAUSEN, THE WOODNER, WASHINGTON, D. C.

Mr. VON HAUSEN. I do.

The CHAIRMAN. Thank you, sir. Will you be seated.

If you will give the reporter your full name and your firm name and address.

Mr. VON HAUSEN. My personal name is Charles Von Hausen. I am in business for myself. My business address is 20 Broad Street, New York 5, N. Y.

The CHAIRMAN. You represent whom?

Mr. VON HAUSEN. I represent Carreau & Co., 63 Wall Street.

The CHAIRMAN. They are stockbrokers?

Mr. VON HAUSEN. Yes, sir.

The CHAIRMAN. You are their auditor?

Mr. VON HAUSEN. Yes, sir.

The CHAIRMAN. And you have all their records?

Mr. VON HAUSEN. I have some of them.

The CHAIRMAN. In connection with the matter we wish to question you about?

Mr. VON HAUSEN. Yes, sir.

The CHAIRMAN. You may proceed.

Mr. SIMON. Mr. Von Hausen, did Carreau & Co. have a stockbroker's account for Ian Woodner?

Mr. VON HAUSEN. No, sir.

Mr. SIMON. They never had a brokerage account for him?

Mr. VON HAUSEN. No, sir.

Mr. SIMON. Did they ever have a brokerage account for Mrs. Ruth Woodner?

Mr. VON HAUSEN. Yes, sir.

Mr. SIMON. When was that brokerage account opened?

Mr. VON HAUSEN. The account was opened on March 14, 1949.

Mr. SIMON. And how was the account opened, Mr. Von Hausen?

Mr. VON HAUSEN. The account was opened by deposit of a check for \$19,000.

Mr. SIMON. I show you a check dated March 11, 1949, drawn by Ruth Woodner, on the Corn Exchange Bank in the amount of \$19,000 and ask you whether that is the check by which the account was opened.

Mr. VON HAUSEN. On the basis of the date and the endorsement, I would say "Yes."

Mr. SIMON. I show you a photostatic copy of a document headed "Full Trading Authorization With Privileges To Withdraw Money and Securities," purporting to be signed by Ruth Woodner on March 11, 1949, and ask you if that is a document from your files.

Mr. VON HAUSEN. Yes, sir; it is.

Mr. SIMON. Is that the customary form by which a person having a brokerage account gives someone else the authority to deal in their account?

Mr. VON HAUSEN. Yes, sir.

Mr. SIMON. I show you a new-account form of Carreau & Co., and ask you if that is the customary form filled out for a new account.

Mr. VON HAUSEN. Yes, sir; it is.

Mr. SIMON. The document is dated March 12, 1949, is it not?

Mr. VON HAUSEN. Yes, sir.

Mr. SIMON. And it gives a place for references and also at the bottom of the page a notation that she is the friend of someone.

Mr. VON HAUSEN. Yes, sir.

Mr. SIMON. Who is that person?

Mr. VON HAUSEN. That person is Abner Goldstone.

Mr. SIMON. Do you know who he is?

Mr. VON HAUSEN. I understand he is an attorney.

Mr. SIMON. In New York?

Mr. VON HAUSEN. I believe so; yes.

Mr. SIMON. What were the first transactions in that account, Mr. Von Hausen?

Mr. VON HAUSEN. After the deposit of a check, the first purchase was a purchase of 100 General Motors, 100 United Gas Corp., 100 Standard Oil of Ohio, and 100 Bethlehem Steel.

Mr. SIMON. Did the purchase of those four securities leave a credit balance in the account?

Mr. VON HAUSEN. Yes, sir; \$317.13.

Mr. SIMON. And what was done with that?

Mr. VON HAUSEN. The check was drawn to the order of Mrs. Ruth Woodner.

Mr. SIMON. Didn't that \$317 balance result after the purchase of \$5,000 of Philadelphia Electric bonds?

Mr. VON HAUSEN. I am sorry. That is correct.

Mr. SIMON. At that time the account was even; is that right?

Mr. VON HAUSEN. Yes, sir.

Mr. SIMON. What were the next transactions?

Mr. VON HAUSEN. On April 4 there was the sale of 100 Standard Oil of Ohio, 100 Bethlehem Steel, 100 General Motors, and then there was 5,000 Philadelphia Electric, 2 $\frac{3}{4}$ s, delivered out, and also 100 United Gas Corp.

Mr. SIMON. When the 3 securities you first mentioned were sold, did that leave a credit balance in Mrs. Woodner's account of \$11,569.82?

Mr. VON HAUSEN. Yes, sir.

Mr. SIMON. What was done with that?

Mr. VON HAUSEN. A check was drawn to her for that amount on April 6 and was mailed to her.

Mr. SIMON. Do you know whether the check was actually mailed to her?

Mr. VON HAUSEN. I understand it was actually mailed to her.

Mr. SIMON. Then what happened to the Philadelphia Electric bonds and the United Gas Corp. stock?

Mr. VON HAUSEN. Well, we have a receipt for those. They had been sent to her.

Mr. SIMON. Who received those securities?

Mr. VON HAUSEN. The receipt is signed by Ruth Woodner.

Mr. SIMON. Does it indicate who actually received them? Do you know whether that was actually her signature?

Mr. VON HAUSEN. We also hold a post-office return receipt that would indicate that Edward Jason received it for her.

Mr. SIMON. Do you know who Edward Jason is?

Mr. VON HAUSEN. No, sir.

Mr. SIMON. I show you a photostatic copy of a Post Office Department return receipt and ask you if that is a copy of the receipt you referred to.

Mr. VON HAUSEN. Yes, sir; it is.

Mr. SIMON. Does that receipt acknowledge receipt of the letter with which you transmitted the United Gas Corp. stock and the Philadelphia Electric bonds?

Mr. VON HAUSEN. Yes, sir.

Mr. SIMON. What was the next thing that happened in that account?

Mr. VON HAUSEN. On April 11, 13 United States Treasury bonds were bought for \$13,250.75.

Mr. SIMON. How was that paid for?

Mr. VON HAUSEN. That was paid for by check from Ruth Woodner for \$1,680.93, and the check of Carreau & Co. to her order, which was returned to us for redeposit to her account.

Mr. SIMON. Does that mean the \$11,569.82 check was returned without having been cashed; is that right?

Mr. VON HAUSEN. Yes, sir.

Mr. SIMON. And then the balance was a check for \$1,680.93?

Mr. VON HAUSEN. Yes, sir.

Mr. SIMON. I show you what purports to be a canceled check of Ruth Woodner in that amount and ask you if that is the check by which the balance was paid.

Mr. VON HAUSEN. I would assume from the date and the endorsement that that was the check.

Mr. SIMON. What happened to the Treasury bonds that you said were purchased for her?

Mr. VON HAUSEN. On the 11th, they were delivered to her.

Mr. SIMON. Prior to that, did you receive a letter from her asking that they be delivered to someone?

Mr. VON HAUSEN. Yes, sir.

Mr. SIMON. I show you a photostat of a letter dated April 8, 1949, purporting to be signed by Ruth Woodner and saying, "Please deliver to the bearer, Mr. Edward Jason, United States bonds in the amount of \$13,000 purchased by you for my account," and ask you if that is a letter on which the bonds were delivered.

Mr. VON HAUSEN. Yes, sir; that is the letter.

Mr. SIMON. Did Mr. Jason pick up those bonds?

Mr. VON HAUSEN. Yes, sir; he did.

Mr. SIMON. On what date?

Mr. VON HAUSEN. April 11.

Mr. SIMON. Do you have the serial numbers of the bonds that Mr. Jason picked up?

Mr. VON HAUSEN. Yes, sir.

SIMON. And what are they?

Mr. VON HAUSEN. On the \$10,000 bond the number is 94,426, and on the \$1,000 bonds the numbers are 298,352; 298,353; and 298,354, each for \$1,000 par value.

Mr. SIMON. Were those United States Treasury bonds known as 2½-percent bonds of the series 1967-72?

Mr. VON HAUSEN. Yes, sir.

Mr. SIMON. And issued under date of June 15, 1949; is that right?

Mr. VON HAUSEN. Well, I think that that June 15, 1949, indicates the next coupon that is attached.

Mr. SIMON. I see, but they are of the series 1967-72.

Mr. VON HAUSEN. Yes, sir.

Mr. SIMON. I show you a photostat of a receipt of Carreau & Co. and ask you if that is the receipt that your company received for those Treasury bonds.

Mr. VON HAUSEN. Yes, sir; it is.

Mr. SIMON. Subsequent to the delivery of those bonds to Mr. Jason, did Carreau & Co. ever have any further dealings with Mr. Woodner?

Mr. VON HAUSEN. They had none other than what appears in this account.

Mr. SIMON. Except for the transactions that you have related here this morning beginning on March 14, 1949, and terminating on April 11, 1949, have either Mr. or Mrs. Woodner ever had any business dealings with Carreau & Co.?

Mr. VON HAUSEN. Not for their account; no, sir.

Mr. SIMON. Not for the account of either of them?

Mr. VON HAUSEN. No, sir.

The CHAIRMAN. You are certain of that, are you?

Mr. VON HAUSEN. Yes, sir; I checked this morning.

The CHAIRMAN. They never had an account as far as you know prior to this date and after the date that Mr. Simon just mentioned?

Mr. VON HAUSEN. That is right.

The CHAIRMAN. Did Max Woodner ever have an account with you?

Mr. VON HAUSEN. No, sir.

The CHAIRMAN. Did anyone connected with the Woodner family ever have an account with you, to your knowledge?

Mr. VON HAUSEN. I would have to check that in the office. That is a rather broad statement.

The CHAIRMAN. Anyone with the name "Woodner"?

Mr. VON HAUSEN. I don't believe so.

Mr. SIMON. Are you acquainted with the signature of Ruth Woodner?

Mr. VON HAUSEN. Only insofar as it appears on this account form.

Mr. SIMON. You have, I believe, in your file a card called specimen signature of, and then what purports to be her signature?

Mr. VON HAUSEN. Yes, sir.

Mr. SIMON. Will you examine the signature on that card and then tell us whether or not the signature on the receipt for these Treasury bonds is the same signature?

Mr. VON HAUSEN. Well, the receipt for the Treasury bonds is signed by Edward Jason and not by Ruth Woodner.

Mr. SIMON. It says, "Ruth Woodner per Mr. Jason," and I assume that is Mr. Jason's signature and not hers, is that right?

Mr. VON HAUSEN. Yes, sir.

The CHAIRMAN. Thank you very much. We appreciate your testimony.

Inasmuch as Ruth Woodner has not arrived as yet, we will ask Max Woodner a few questions until she does arrive.

Will you come forward Mr. Max Woodner.

The CHAIRMAN. Will you be sworn.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. M. WOODNER. I do.

TESTIMONY OF MAX WOODNER, THE WOODNER, WASHINGTON, D. C.

The CHAIRMAN. If you will give your full name to the reporter. I presume these gentlemen on your right and left are lawyers and if they will give their full names.

Mr. M. WOODNER. My name is Max Woodner.

The CHAIRMAN. And your address.

Mr. M. WOODNER. The address is 2125 Fredericksburg Road, San Antonio, Tex.

Mr. WILLIAMSON. Would you instruct the photographers to take all of their pictures, now?

The CHAIRMAN. Whatever the wishes of the witness are, we abide by. Do you object to the photographers?

Mr. M. WOODNER. I do not object to the photographers, I object to being flashed at. If they will take as many pictures as they want now.

The CHAIRMAN. And then get out.

They will be glad to abide by your wishes.

Mr. SIMON. You have given the reporter your full name and address; have you?

Mr. M. WOODNER. Yes, sir.

Mr. SIMON. What is your occupation, Mr. Woodner?

Mr. M. WOODNER. A builder.

Mr. SIMON. By whom are you employed?

Mr. M. WOODNER. Jonathan Woodner Co.

Mr. SIMON. How long have you been employed by the Jonathan Woodner Co.?

Mr. M. WOODNER. Approximately 10 years.

Mr. SIMON. What is your salary?

Mr. M. WOODNER. I have a drawing account which is \$150 a week.

Mr. SIMON. What is the difference between a drawing account and a salary?

Mr. M. WOODNER. A drawing account is \$150 a week out of which \$100 is put down as salary, and \$50 toward expenses.

Mr. SIMON. Then, your salary is \$100 a week, is it?

Mr. M. WOODNER. One hundred dollars a week. I draw \$150.

Mr. SIMON. Fifty dollars is expenses and \$100 is salary; is that right?

Mr. M. WOODNER. Yes.

Mr. SIMON. How long has that been your salary?

Mr. M. WOODNER. The last year and a half. About a year and a half.

Mr. SIMON. What was your salary before that?

Mr. M. WOODNER. I really don't know completely what the salary was. There were different amounts which I drew as I needed the funds, for my own living expenses. We can determine that for the year.

The CHAIRMAN. Would it be \$5,000 a year or \$10,000 a year or more?

Mr. M. WOODNER. It could have been more and it could have been less.

The CHAIRMAN. Up to a year and a half ago, Mr. Woodner, you don't remember what your salary was?

Mr. M. WOODNER. I don't remember what my salary was because I did not make weekly drawings. I drew money whenever I needed it.

Mr. SIMON. For the year 1952, what was your total salary?

Mr. M. WOODNER. I don't remember.

Mr. SIMON. Was it more or less than \$5,000?

Mr. M. WOODNER. I don't remember what my salary was because it was a bookkeeping procedure, whatever I would do. I would draw \$50 or \$75 or maybe \$100 or maybe \$150. Then maybe I wouldn't draw anything for 2 or 3 weeks.

Mr. SIMON. Do you file income-tax returns?

Mr. M. WOODNER. Yes, sir.

Mr. SIMON. Do they show what your salary was?

Mr. M. WOODNER. They don't show what my salary was. I don't know that they show it. They show what my income was.

Mr. SIMON. What was your income from the Jonathan Woodner Co. in 1952?

Mr. M. WOODNER. I don't remember what it was.

Mr. SIMON. You don't remember what it was?

Mr. M. WOODNER. I don't remember.

The CHAIRMAN. What was it in 1953?

Mr. M. WOODNER. 1953, I remember.

The CHAIRMAN. How much was it?

Mr. M. WOODNER. About \$5,000.

The CHAIRMAN. Is that the only income you had last year, in 1953, \$5,000?

Mr. M. WOODNER. My last income of 1953 was \$5,000. I believe my wife made \$570.

The CHAIRMAN. Your joint income for the year 1953 was \$5,572?

Mr. M. WOODNER. That is right.

Mr. SIMON. Was your income more or less than that in 1952?

Mr. M. WOODNER. I don't remember.

Mr. SIMON. Was it substantially more?

Mr. M. WOODNER. I don't remember.

Mr. SIMON. Was your income as much as \$25,000 in 1952?

Mr. M. WOODNER. I don't remember.

Mr. SIMON. Was it \$100,000?

Mr. M. WOODNER. I can't answer that if I don't remember.

Mr. SIMON. Was it \$1 million?

Mr. M. WOODNER. I can't answer that unless I remember what it was.

Mr. SIMON. And you don't remember whether or not you had a million-dollar income?

Mr. M. WOODNER. Probably it was not \$1 million. I am quite sure it was not \$1 million.

Mr. SIMON. What is your best recollection of what it was?

Mr. M. WOODNER. Well, it would be whatever I drew and I know I didn't—

Mr. SIMON. What is the range? What is your income, \$3,000 or \$4,000 or \$20,000 or \$30,000?

Mr. M. WOODNER. My range of income is between five and—it might have been even less than that. It might have been even \$500 or \$600. It depends on what year it was in. It might have been \$5,000 or \$10,000. It depends on what I drew.

Mr. SIMON. Are you saying that the range of your income is between \$500 and \$600 and \$5,000 and \$10,000?

Mr. M. WOODNER. My range of income I would say is about \$5,000 to \$10,000.

Mr. SIMON. For how long has that been the range of your income?

Mr. M. WOODNER. Well, this last year it was around \$5,000.

Mr. SIMON. What was the best recollection of your income in 1949?

Mr. M. WOODNER. I don't remember what my income was. If I was getting a regular weekly salary, as employees of the company normally get outside of the family, then I could tell you.

Mr. SIMON. What is your best recollection, Mr. Woodner, of your income in 1949?

Mr. M. WOODNER. I don't remember.

The CHAIRMAN. Did you receive anything in dividends in 1949?

Mr. M. WOODNER. Dividends?

The CHAIRMAN. Yes.

Mr. M. WOODNER. I don't remember whether you call it dividends or what.

The CHAIRMAN. Did your income in 1949 consist of a salary, dividends, and rentals?

Mr. M. WOODNER. Now, let me explain to you a little bit about how we drew money. It was a family affair. We had a right to sign our own checks. If I needed money to live on, I drew money and at the

end of the year, when the bookkeepers made up our statements, whether they have a balance or a credit was shown.

The CHAIRMAN. It is very clear to us how you proceeded.

Mr. M. WOODNER. That is why I can't explain to you how much I drew at one time or how much I didn't.

The CHAIRMAN. Under the arrangement you have just explained to us, approximately how much did you draw in the year 1949?

Mr. M. WOODNER. I don't remember.

Mr. SIMON. Can you give us the range, Mr. Woodner, between \$4,000 and \$10,000 or \$10,000 and \$20,000? What was the range of your income?

Mr. M. WOODNER. Let me explain something. There may have been times when the bookkeeping department would get all the records together and they would make up whatever my income statements were and whatever was credited to me or against me and when they gave me my income-tax statements to sign, I signed them.

The CHAIRMAN. What is the most money you ever made in any 1 calendar year?

Mr. M. WOODNER. I don't know.

The CHAIRMAN. In 1949, did the Jonathan Woodner Co. write out checks to you in the amount of \$10,000 or \$100,000, or more?

Mr. M. WOODNER. I don't understand.

The CHAIRMAN. I mean in 1949—you worked for the Jonathan Woodner Co.; did you not?

Mr. M. WOODNER. That is right.

The CHAIRMAN. In 1949, how much did they write out checks to you for? \$100,000?

Mr. M. WOODNER. I do not know how much they wrote out to me.

The CHAIRMAN. Would you say it was \$100,000? Would you say it was nearer \$100,000 than it was \$10,000?

Mr. M. WOODNER. I do not know. I do not have any records. I have no records with me.

The CHAIRMAN. Did the Jonathan Woodner Co. ever give you a personal check to deposit to your personal account, for \$50,000? Would you remember that?

Mr. M. WOODNER. No, I wouldn't remember.

The CHAIRMAN. You have just testified that your income is \$5,000 or \$6,000 a year, and you tell us now if you had one big check for \$50,000 you wouldn't remember it?

Mr. M. WOODNER. I would remember it if I only had one check for \$50,000, but they had lots of checks—I had checks made out for company business, and so forth, up in the hundreds of thousands of dollars.

The CHAIRMAN. You have had checks made out to you, personally, by the Jonathan Woodner Co. for hundreds of thousands of dollars?

Mr. M. WOODNER. I did not say that.

The CHAIRMAN. What did you say?

Mr. M. WOODNER. Checks were made out from the Jonathan Woodner Co. which I signed for hundreds of thousands of dollars.

The CHAIRMAN. I am talking about checks that were made out to you, personally, that you deposited to your own personal account.

Did you ever receive a \$50,000 check from the Jonathan Woodner Co. to you, personally, which you deposited in your own account?

Mr. M. WOODNER. I don't remember whether I deposited a check or not.

The CHAIRMAN. I hand you a check for \$50,000 and ask you, even then, if you can remember, and I doubt if you can, but I hand you a check dated February 4, 1949, to Max Woodner, for \$50,000, on the Jonathan Woodner Co., signed by Max Woodner, and ask you if you can remember it? Is that your signature?

Mr. M. WOODNER. It looks like my signature.

Mr. SIMON. Is it?

Mr. M. WOODNER. It might be.

The CHAIRMAN. Well, is it your signature?

Mr. M. WOODNER. It might be; it might not. I can't remember.

The CHAIRMAN. Can you sit there and tell us you don't know?

Mr. M. WOODNER. My signature may have changed within 4 or 5 years. It changes greatly.

The CHAIRMAN. I see. All right.

Now, I hand you a check dated March 7, 1949, made out to Max Woodner and signed by Ian Woodner on the Jonathan Woodner Co.'s account for \$20,000 and ask you if you received that check.

Mr. M. WOODNER. I don't remember receiving it.

The CHAIRMAN. Is that your signature on the back?

Mr. M. WOODNER. It says here, "For deposit to credit of Max Woodner."

The CHAIRMAN. Did you deposit it? Did you ever see that check?

Mr. M. WOODNER. I don't remember seeing it.

The CHAIRMAN. Did you receive the money?

Mr. M. WOODNER. I see it says for deposit to the credit of Max Woodner.

The CHAIRMAN. I hand you a check dated March 23, 1949, in the amount of \$35,000, made payable to Max Woodner, on the Jonathan Woodner Co., signed by Ian Woodner, and ask you if you received that check?

Mr. M. WOODNER. This check says, "For deposit to the credit of Max Woodner." I don't remember. I don't remember.

The CHAIRMAN. I hand you a check dated March 19, 1949, made to Max Woodner, for \$10,000, on the Jonathan Woodner Co. signed by Ian Woodner, and ask you if you received that check?

Mr. M. WOODNER. I don't remember receiving it. It says in the endorsement, "For deposit only to the credit of Max Woodner."

The CHAIRMAN. I hand you a check dated March 18, 1949, made out to Max Woodner in the amount of \$2,000 on the Jonathan Woodner Co. and ask you if you received that check?

Mr. M. WOODNER. It says, "For deposit to the account of Max Woodner."

The CHAIRMAN. Was it deposited to your account?

Mr. M. WOODNER. That is what it says here.

The CHAIRMAN. Do you recall it?

Mr. M. WOODNER. I do not remember it.

The CHAIRMAN. Now hand me all the checks back.

I hold in my hand a \$50,000 check, a \$20,000 check, a \$35,000 check, a \$10,000 check, and a \$2,000 check, making \$117,000 worth of checks issued to you by the Woodner Co. in a period of about 3 weeks' time.

My question is, For what purpose were those checks issued to you?

Mr. M. WOODNER. As I understand—

The CHAIRMAN. Maybe I can make it easier for you. Were they a loan?

Mr. M. WOODNER. I don't know what they were.

The CHAIRMAN. Were they for compensation?

Mr. M. WOODNER. I don't know what they were.

The CHAIRMAN. Were they dividends?

Mr. M. WOODNER. I do not know.

The CHAIRMAN. Well, there is nothing on the checks to indicate what they were for. I mean, the space up here where you normally write in the purpose of the check, whether it is for payment of a bill, an invoice or loan or interest or whatever you pay money out for, it is absolutely blank.

Mr. M. WOODNER. At the time of these moneys that you speak about, we were in a stage of—I understood from the staff that we were going into a section 608 project and as I understand, I was to be a sponsor on this project.

The CHAIRMAN. You didn't know it, you just understood it from them?

Mr. M. WOODNER. That is my understanding. That being a sponsor, you had to have a certain amount of cash in the bank.

The CHAIRMAN. That is my point. Was this a loan to you by the Jonathan Woodner Co., or a gift? Was it a loan?

Mr. M. WOODNER. I do not know whether it was a loan. All I know is that it was money deposited to my account.

Mr. SIMON. Mr. Woodner, you were subpoenaed to produce your canceled checks and bank statements for February and March 1949. Do you have them?

Mr. M. WOODNER. No; I do not have them.

Mr. SIMON. Where are they?

Mr. M. WOODNER. I do not know where they are.

Mr. SIMON. Have you ever seen them?

Mr. M. WOODNER. I don't remember ever seeing them.

Mr. SIMON. Do you know whether you have ever seen your February and March 1949 bank statements?

Mr. M. WOODNER. I don't remember.

Mr. SIMON. Do you know who received them from the bank?

Mr. M. WOODNER. No; I do not.

Mr. SIMON. Did you receive them from the bank?

Mr. M. WOODNER. I don't remember receiving them from the bank.

Mr. SIMON. We have a transcript from the American Security Bank of what purports to be your bank account for the year 1949 and it shows 5 checks, each in the amount of \$5,000, cashed between February 16 and March 23, 1949. Do you know who those checks were payable to?

Were any of those checks payable to currency, Mr. Woodner?

Mr. M. WOODNER. I don't remember.

Mr. SIMON. You don't know?

Mr. M. WOODNER. I do not know.

Mr. SIMON. Do you know who they were payable to?

Mr. M. WOODNER. I presume they were paid to Jonathan Woodner Co.

Mr. SIMON. Do you know?

Mr. M. WOODNER. Well, we have what we call a family credit account, and all the moneys that were put into the American Security Bank went back to the company.

Mr. SIMON. Did you draw the checks bringing them back, or did someone else?

Mr. M. WOODNER. What?

Mr. SIMON. Did you draw those checks or did someone else sign your name to them?

Mr. M. WOODNER. I may have written checks. It was the policy of the company. I was strictly a field man, out in the field.

Mr. SIMON. Was this your bank account?

Mr. M. WOODNER. Yes, that was my bank account.

Mr. SIMON. What was your policy? Did you sign your own checks or did someone else sign them for you?

Mr. M. WOODNER. Well, it was the policy that I could sign my checks. I signed my checks and left checks in the office and my brother had a right to sign checks.

The CHAIRMAN. Did he have a right to sign your name?

Mr. M. WOODNER. He had a right to sign my name.

The CHAIRMAN. Sign his or yours?

Mr. M. WOODNER. He could sign my name.

Mr. SIMON. Was that an authorization with the bank or merely a matter between you and your brother?

Mr. WOODNER. I don't remember if I authorized the bank to accept them. I know that between my brother and myself, that authorization was given and it was understood and the reason for that was because I was out in the field working on the job and I couldn't be in the office spending my time there.

Mr. SIMON. In the spring of 1949, how much were you worth?

Mr. M. WOODNER. What was that?

Mr. SIMON. In the spring of 1949, what was your net worth?

Mr. M. WOODNER. I don't remember.

Mr. SIMON. Was it as much as \$1 million?

Mr. M. WOODNER. I do not remember.

Mr. SIMON. Was it \$10 million?

Mr. M. WOODNER. I don't remember what I was worth because I didn't know myself.

Mr. SIMON. Were you worth \$10 million?

Mr. M. WOODNER. Well, I don't know. How could I say I was worth \$10 million?

Mr. SIMON. Do you know whether you were worth \$100 million in the spring of 1949?

Mr. M. WOODNER. I don't remember what I was worth, but it probably wouldn't be \$100 million.

Mr. SIMON. What is your best recollection of what you were worth in the spring of 1949?

Mr. M. WOODNER. I never gave it a thought, what I was worth, in 1949 or at any time.

Mr. SIMON. Would you give it a thought now and give us your best recollection of what you were worth in the spring of 1949?

Mr. M. WOODNER. I will say I don't remember.

Mr. SIMON. Will you give us a bracket and say, "At least so much and not more than so much"?

Mr. M. WOODNER. I couldn't give you a bracket for the simple reason I wasn't taking care of the books; I didn't know what the company was worth because I know I had stock in the company.

Mr. SIMON. I am talking about you, Mr. Woodner.

Mr. M. WOODNER. I am talking about myself, because at the time, everything I had was practically in the company, at the time.

Mr. SIMON. On March 10, 1949, did you have \$44,000 cash in banks?

Mr. M. WOODNER. I don't remember. I would have to get the books and see.

Mr. SIMON. On March 10, 1949, did you have \$16,000 of loans and notes receivable?

Mr. M. WOODNER. I don't remember.

The CHAIRMAN. Well, let's show him the statement. I want to know if you signed that statement?

Mr. WILLIAMSON. May we have just a moment, Senator?

The CHAIRMAN. Yes. Well, he ought to be able to look at his signature and tell. It is right before him.

Did you sign that statement, Mr. Woodner?

Mr. M. WOODNER. I may have.

The CHAIRMAN. Is that your signature?

Mr. M. WOODNER. I can't remember if it is mine or not.

The CHAIRMAN. Is that a true statement of your net worth, at the time? Did you have \$44,000 cash in the bank on that date?

Mr. M. WOODNER. Which question do you want me to answer first?

The CHAIRMAN. I don't care. It doesn't look like you are going to answer any, but it is all right.

Mr. M. WOODNER. I will give you an answer on that.

The CHAIRMAN. All right. Let's have an answer, please.

Mr. M. WOODNER. These statements are made up by our staff and when the staff gave me any papers to sign——

The CHAIRMAN. You just automatically signed them?

Mr. M. WOODNER. I signed the papers.

The CHAIRMAN. Even though they were untrue?

Mr. M. WOODNER. I wouldn't know whether they were untrue or true.

The CHAIRMAN. Did you make any effort to find out when you signed that statement whether or not you had \$44,000 in the bank? You just testified your salary was \$5,000 to \$10,000 for the last 10 years. Now, where did you get \$44,000 cash and what does that show your net worth to be? Read it.

Mr. M. WOODNER. It says, "Cash in the bank, \$44,000."

The CHAIRMAN. What does it show your net worth to be?

Mr. M. WOODNER. It says, "Net worth, \$725,904.86."

The CHAIRMAN. Was that a true statement of your net worth on March 10, 1949?

Mr. M. WOODNER. This was made up by our staff in the office. I don't know whether it is true or whether it isn't true. I assume that it is true.

The CHAIRMAN. For what purpose was this statement issued?

Mr. M. WOODNER. I don't have the record of when it was issued, but I knew there was a statement that had to be made for being a sponsor.

The CHAIRMAN. Would it be possible that you were just a dummy and that your brother used your bank account and issued checks and

deposited checks to your bank account, drew them up and made out financial statements and signed your name to them unbeknown to you?

Mr. M. WOODNER. I wouldn't say that.

The CHAIRMAN. You wouldn't say that.

Mr. M. WOODNER. No.

The CHAIRMAN. What would you say?

Mr. M. WOODNER. I would say I had complete confidence in my brother.

The CHAIRMAN. Well, I didn't say—

Mr. M. WOODNER. Well, you asked me if I was a complete dummy. I wasn't a complete dummy. The point is this: As far as the field work was concerned, I was as good as any man in the field and as far as the office was concerned, I was a dummy as far as the office work was concerned, because that wasn't my thing to do.

The CHAIRMAN. You filed this statement on March 10, with FHA for the purpose of getting a commitment for a mortgage. I am just trying to be helpful to you to find out whether or not it was a true statement and whether you signed it or not?

Mr. M. WOODNER. I can't tell you if it was true or whether it wasn't true. If I was a dummy in books—I am no accountant I never did any office work; I never made up any statements, and all the things I go into as sponsor in an FHA job I know nothing about. I am out in the field and in the field I do my stuff.

The CHAIRMAN. During a 3 weeks' period from February 4 up to about March 20, the Woodner Co. issued to you in checks, about \$117,000, in that period?

Mr. M. WOODNER. Yes, sir.

The CHAIRMAN. Do you know the date you received the commitment from FHA on the Woodner Apartments?

Mr. M. WOODNER. Do I know the date, now?

The CHAIRMAN. Do you recall it?

Mr. M. WOODNER. Now, I know the date.

The CHAIRMAN. What was it?

Mr. M. WOODNER. I was advised it was March 31.

The CHAIRMAN. 1949?

Mr. M. WOODNER. 1949.

The CHAIRMAN. That was the date FHA gave you the commitment on the Woodner Apartments?

Mr. M. WOODNER. Gave me? Gave the company a commitment.

The CHAIRMAN. Was that the purpose of this statement that I hold in my hand, of March 10?

Mr. M. WOODNER. I don't know what the purpose of the statement actually was. All I know is that I was to be a sponsor.

When I came in out of the field, I must have signed the papers.

Mr. SIMON. In March 1949, what bank accounts did you have?

Mr. M. WOODNER. The American Security Bank, the one that you have there.

Mr. SIMON. Is that the only bank account that you had?

Mr. M. WOODNER. That is the only bank account that I had.

Mr. SIMON. This American Security account shows that on March 10, you had \$30,490 in the bank. The statement that you have in front of you says on March 10 you had cash in banks of \$44,360.

I call your attention, Mr. Woodner, to the fact that the statement you have in your hand says, "Cash in banks, American Security & Trust Co., and others," and I would like to know where the other \$14,000 was.

Mr. M. WOODNER. I don't know what the others mean.

Mr. SIMON. Did you have any money in any other bank at that time?

Mr. M. WOODNER. Well, it says, "Cash in banks, American Security & Trust Co., and others." I don't know what they mean by the others.

The CHAIRMAN. That means other banks.

Mr. M. WOODNER. I did not have other banks that I know of, that I can remember.

Mr. SIMON. My last question, Mr. Woodner—as I understand business matters, when a company pays you some money, it is either a loan or a gift—

Mr. M. WOODNER. You mean when I drew some money?

Mr. SIMON. When money goes from a company to an individual it is either a loan, a gift, a dividend, or a payment for services or materials or something else of value.

Mr. M. WOODNER. Can it be an advance of some kind?

Mr. SIMON. Isn't an advance a loan?

Mr. WILLIAMSON. Mr. Simon, you have asked that several times.

Mr. SIMON. I would like to have one more opportunity to ask the witness whether this was a gift.

Mr. M. WOODNER. What do you mean by "this"?

Mr. SIMON. Let me ask the question.

Mr. M. WOODNER. Well, you say "this" and I don't know what you are talking about.

Mr. SIMON. I would like to give you one more opportunity to tell us whether the \$117,000 as represented by the checks the Senator spoke about a minute ago, was a gift you didn't have to repay whether it was a dividend, whether it was a payment for services or materials, or something else that you furnished to the company?

Mr. M. WOODNER. As my staff told me, moneys were deposited to my account.

Mr. SIMON. Did you have to pay it back?

Mr. M. WOODNER. What is that, sir?

Mr. SIMON. When you received the money, or when it was deposited in your account, was there an obligation to pay it back, or was there no obligation to pay it back?

Mr. M. WOODNER. I don't know whether there was an obligation to pay it back. All I know is that it wasn't paid to me; all I know is that it was deposited to the account and it was deposited back out of the account, every dollar of that \$117,000 went back into the company.

Mr. SIMON. Did you know that the \$117,000 was deposited in your account?

Mr. M. WOODNER. I don't remember if I did or didn't.

The CHAIRMAN. Well, if the \$117,000, as you just said, went back into the Woodner Co., for what purpose did they give it to you, then, in the first place?

Mr. M. WOODNER. All I know is that I was to be a sponsor for one of these projects.

The CHAIRMAN. I know, but if you took \$117,000 and put it down as a sponsor of a project and didn't show you owed \$117,000, then you made a false statement.

Mr. M. WOODNER. All I know is that \$117,000 was deposited to my account.

Mr. SIMON. Did you know that?

Mr. M. WOODNER. I don't remember whether I knew it or didn't.

The CHAIRMAN. Well, we thank you very much. If you will just stand by for a few minutes, we may want to call you again.

Our next witness will be Mrs. Ruth Jackson, Green Farms, Conn.

Mrs. Jackson, will you come forward, please? Mrs. Jackson, will you please be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mrs. JACKSON. Ruth Jackson, Green Farms, Conn.

TESTIMONY OF MRS. RUTH JACKSON, THE WOODNER, WASHINGTON, D. C.

Mrs. JACKSON. I do.

The CHAIRMAN. Thank you. Will you please be seated?

Will you give the reporter your name and address, please?

Mrs. JACKSON. Ruth Jackson, Green Farms, Conn.

The CHAIRMAN. Mrs. Jackson, in 1949, were you Mrs. Ian Woodner?

Mrs. JACKSON. Yes, I was.

The CHAIRMAN. Will you tell us during what years you were Mrs. Woodner?

Mrs. JACKSON. Goodness, I don't remember what times; 1937, I think.

The CHAIRMAN. You were divorced in 1950; is that right?

Mrs. JACKSON. Yes.

The CHAIRMAN. You and Mr. Woodner separated in the fall of 1949; is that right?

Mrs. JACKSON. That is right.

Mr. SIMON. I have here a transcript of what purports to be your personal bank account at the Corn Exchange Bank & Trust Co., Lincoln Square Branch, beginning January 1947. Did you have an account at that bank?

Mrs. JACKSON. Yes, I did.

Mr. SIMON. Did that continue up until the time you and Mr. Woodner separated?

Mrs. JACKSON. Yes, it did.

Mr. SIMON. Prior to February 1949, Mrs. Woodner, the deposits in this account are all modest sums of under \$1,000—I believe the biggest one is \$700, and the withdrawals are all small items, like \$3.57, or \$17.50. Was that your household account?

Mrs. JACKSON. Yes, it was.

Mr. SIMON. I take it these items that I refer to were for payment of household bills?

Mrs. JACKSON. That is right.

Mr. SIMON. I take it the deposits of \$300 or \$500 were your household allowance?

Mrs. JACKSON. That is right.

Mr. SIMON. During that period of time, do you recall the extent of your household-account bank balance?

Mrs. JACKSON. Well, I never really had much of a balance. Mr. Woodner was in the habit of giving me a certain amount of money to cover our bills, and I would make out checks and send them in and use up all the money that was given me, and then tell him that it was all gone, and the next month he would give me more, but it was never a regular amount, and I never kept very much of a balance.

Mr. SIMON. Is it fair to say that prior to February 1949 there was rarely more than a couple hundred dollars in the bank?

Mrs. JACKSON. That is right, I think, yes.

Mr. SIMON. Now, in 1949, five checks were issued by the Jonathan Woodner Co. to Ruth Woodner. The first of them is dated February 23, 1949, in the amount of \$10,000, two of them dated February 24 in the amount of \$5,000 each, another one dated March 10, 1949, for \$15,000—I am sorry, it is March 15, 1949, for \$6,000, and March 23, for \$10,000, a total of \$36,000.

I show you those checks and ask you if you have ever seen them before?

Mrs. JACKSON. No; I have never seen them before.

Mr. SIMON. On the reverse side is a notation that they were deposited to your account. Is that in your handwriting?

Mrs. JACKSON. No.

Mr. SIMON. Do you know whose handwriting that is in?

Mrs. JACKSON. One of them looks like Mr. Woodner's handwriting.

Mr. SIMON. Is that Mr. Ian Woodner?

Mrs. JACKSON. Yes.

The CHAIRMAN. Were you finished on the handwriting?

Mrs. JACKSON. Yes.

Mr. SIMON. In February and March 1949, Mrs. Woodner, did you think you had \$36,000 of your own money?

Mrs. JACKSON. I certainly did not.

Mr. SIMON. I show you a check dated March 11, 1949, in the amount of \$19,000, payable to the order of Carreau & Co., which appears to be in your handwriting, and ask you if you have any recollection of drawing that check?

Mrs. JACKSON. Yes; that is my handwriting.

Mr. SIMON. Do you have any recollection of having drawn the check?

Mrs. JACKSON. I do recall going down there with Mr. Woodner and making out—I can't remember what I did. Obviously, I wrote out a check and signed it.

Mr. SIMON. Do you know what was the purpose of that check?

Mrs. JACKSON. I have no idea.

Mr. SIMON. Do you know a man named Abner Goldstone?

Mrs. JACKSON. Yes.

Mr. SIMON. He apparently introduced you to Carreau & Co. Do you recall the occasion for that?

Mrs. JACKSON. No. I don't recall his being with us. I remember the instance of going down there with Mr. Woodner and I assume it had something to do with his business and I knew nothing further about it, and I don't recall Mr. Goldstone going down with us.

Mr. SIMON. A few moments ago, the auditor of Carreau & Co. testified that prior to March 14, 1949, you had never had an account

with that firm, and that the account was closed out on April 11, 1949, less than a month later.

Do you have any knowledge of why you had an account opened for you in March 1949 and why it was closed in April?

Mrs. JACKSON. No, I know nothing about it.

Mr. SIMON. I don't mean to be putting words in your mouth, but is what you are saying that you did just what you were told and don't know anything about it?

Mrs. JACKSON. That is right.

Mr. SIMON. I show you a check dated April 8, 1949, for \$1,680.93, which the auditor for Carreau & Co. has testified was in payment for the balance on that account, and ask you if you have ever seen that check before?

Mrs. JACKSON. Well, it is my signature on the check.

Mr. SIMON. Is the remainder of the check in your handwriting?

Mrs. JACKSON. No, it is not.

The CHAIRMAN. Did you have a habit of signing checks in blank and giving them to your husband, at that time?

Mrs. JACKSON. I don't recall doing it, but if he had asked me to do it, certainly I would have done it.

Mr. SIMON. Mrs. Woodner, I show you four checks, here. Three of them are payable to the order of the Jonathan Woodner Co., and while I am not a handwriting expert, it appears to me that your signature and the Jonathan Woodner Co. are in your handwriting, but the dollar amount, both in words and figures, is in someone else's handwriting, and the fourth check is payable to the Treasury Department for \$20, and it appears to be entirely in your handwriting.

I would ask you if you would verify whether I am correct in the handwriting?

Mrs. JACKSON. Yes; the Treasury Department one is.

Mr. SIMON. It is all in your handwriting?

Mrs. JACKSON. It is completely in my handwriting.

The Jonathan Woodner Co. checks, of just the Jonathan Woodner Co. is, but the date and the figures were filled in by someone else.

Mr. SIMON. Do you know whether they were filled in before or after you signed them?

Mrs. JACKSON. It would be my guess that it was—it was filled in after I signed them, because I do recall that sometimes Mr. Woodner would ask me to sign something, among all the papers I had to sign for him, and so I would have done something like that and given it to him and he would take it away to Washington.

Mr. SIMON. Do you recall asking Carreau & Co., or asking anyone else to ask Carreau & Co., to purchase \$13,000 of Treasury notes, bearer bonds, for you?

Mrs. JACKSON. No, no such thing happened.

Mr. SIMON. I show you what purports to be a letter on the stationery of Jonathan Woodner Co., to Carreau & Co., asking that the \$13,000 of Treasury bonds be delivered to the bearer, Mr. Edward Jayson, and ask you if you signed that letter?

Mrs. JACKSON. Well, that looks like my signature. I have no recollection of signing the letter at all.

Mr. SIMON. But you do think it is your signature?

Mrs. JACKSON. Yes.

Mr. SIMON. Prior to the last few months, did you know that you had \$13,000 of Treasury bonds in March 1949?

Mrs. JACKSON. No, I certainly wish I did know, but I had no knowledge of it.

The CHAIRMAN. Did you ever receive the bonds?

Mrs. JACKSON. No, never.

The CHAIRMAN. You never had them in your possession?

Mrs. JACKSON. Never. Never.

Mr. SIMON. Also, there were some Philadelphia Electric bonds, \$5,000 of Philadelphia Electric bonds. Did you ever receive those?

Mrs. JACKSON. Never.

Mr. SIMON. Do you recall asking Mr. Jayson to pick those bonds up for you?

Mrs. JACKSON. No, I didn't ask him to do any such thing.

Mr. SIMON. Do you recall asking Mr. Jayson to pick those bonds either?

Mrs. JACKSON. No, never.

Mr. SIMON. I don't mean to go into the details of your personal life, but when you and Mr. Woodner separated, was there any discussion as to who owned the \$13,000 in Treasury bonds and the \$5,000 of Philadelphia Electric bonds?

Mrs. JACKSON. Since I was completely unaware that I owned them, obviously, there could have been no discussion about them. When we separated, he handed me, or rather, had Mr. Jayson hand me, a whole stack of papers and asked me to sign them, and I was very upset at the time—in any case, it was never my practice, unfortunately, to read what I signed. I have since learned a bitter lesson.

Mr. SIMON. How many papers did you sign at Mr. Jayson's request at the time of your separation?

Mrs. JACKSON. I couldn't remember. I would say there were 12 or 15 papers, at least. It was quite a pile of papers.

Mr. SIMON. Did you read any of them before you signed them?

Mrs. JACKSON. No, I didn't.

Mr. SIMON. Did you have an opportunity to see what was on the paper?

Mrs. JACKSON. No. He had his hand over them and would just lift them to where the signature place was.

Mr. SIMON. He had his hand over the contents?

Mrs. JACKSON. Over the contents, yes.

Mr. SIMON. You were permitted only to see where you were to sign your name?

Mrs. JACKSON. Yes, that is right.

Mr. SIMON. Did you have the advice of counsel when you signed those papers?

Mrs. JACKSON. No, I didn't.

Mr. SIMON. I take it from what you have said that you also don't have any idea why the Treasury bonds were purchased or what happened to them?

Mrs. JACKSON. No idea at all.

Mr. SIMON. Do you know why the \$36,000 was deposited in your account in February and March 1949?

Mrs. JACKSON. No; I have no idea. Certainly it was not put there for my use; I know that.

Mr. SIMON. You didn't consider that it was your money to spend?

Mrs. JACKSON. No.

The CHAIRMAN. Did you know it was there?

Mrs. JACKSON. I have no recollection of it, sir.

The CHAIRMAN. You haven't the slightest idea of what happened to these Government bonds and the \$5,000 worth of Philadelphia bonds?

Mrs. JACKSON. I have no idea at all.

The CHAIRMAN. You never had them in your possession?

Mrs. JACKSON. I never had them.

Mr. SIMON. Mrs. Jackson, so far as you know, is this occasion the only time when money funneled through your account?

Mrs. JACKSON. I think so. I took so little interest in those things which did not directly concern me, or rather, I took no part in it and had no interest in it, and I have no recollection.

Mr. SIMON. Have you seen the transcript of the Corn Exchange Bank of which I have a photostat? Have you seen that recently?

Mrs. JACKSON. No; I haven't.

Mr. SIMON. I received this in the last 48 hours from your attorney, and it would indicate that at least in 1947 and 1948, and in 1949, up until the time you separated, there were no checks that ever went into your account other than for \$100, or \$600, or \$700, other than these \$36,000 worth of checks we are talking about. Does that coincide with your recollection?

Mrs. JACKSON. Yes. Yes; it does.

Mr. SIMON. Do you know any reason why in this particular spring of 1949 those checks should funnel through your account?

Mrs. JACKSON. I have no idea.

Mr. SIMON. We have been told that the movement of these checks had something to do with people being sponsors in FHA projects. You were a sponsor in a number of FHA projects, weren't you?

Mrs. JACKSON. I don't even know what a sponsor is.

The CHAIRMAN. Any questions, Senator Bush?

We thank you. We will excuse you at the moment. If you will just stand by; we might want you later.

Our next witness will be Miss Beverly Woodner.

Will you come forward, please. Will you be sworn, please.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF MISS BEVERLY WOODNER, THE WOODNER, WASHINGTON, D. C.

Miss WOODNER. Yes; I do.

The CHAIRMAN. Thank you. You may be seated, please.

Mr. SIMON. Miss Woodner, will you give the reporter your full name and address, please.

Miss WOODNER. My name is Beverly Woodner, and I live in New York City and in Washington, D. C.

Mr. SIMON. What is your address?

Miss WOODNER. My address in New York is 39 West 67th Street, and my address in Washington is the Woodner, at 3636 16th Street NW.

The CHAIRMAN. You work for the Jonathan Woodner Co.? From time to time you have worked for the Jonathan Woodner Co.?

Miss WOODNER. At times.

The CHAIRMAN. When you did work for them, what would be your salary or compensation?

Miss WOODNER. My salary, now?

The CHAIRMAN. Yes.

Miss WOODNER. My salary on the checks, the money that I had is \$150, but I know there is something taken off for taxes or things that they take off.

The CHAIRMAN. But your salary is \$150 a week?

Miss WOODNER. That is the money that I have to spend out of my salary.

The CHAIRMAN. What is the most amount of money that the Jonathan Woodner Co. has ever paid to you in any one calendar year? Would you remember that?

Miss WOODNER. Do you mean in salary?

The CHAIRMAN. Your compensation of all descriptions. Dividends, stock dividends, compensation, bonuses, wages, salary.

Miss WOODNER. A while ago, when I worked for them—quite a while ago—my checks to me—when I say “to me” I mean the money spent on my salary, was \$69. My salary now to spend is \$150.

The CHAIRMAN. I hand you 2 checks, 1 dated March 10, 1949, made out to Beverly Woodner, signed by Jonathan Woodner Co., for \$15,000. Another check dated March 23, 1949, made out to Beverly Woodner, for \$10,000, and ask you if you received those 2 checks?

Miss WOODNER. What did you say?

The CHAIRMAN. Did you receive those two checks?

Miss WOODNER. What do you mean “received”?

The CHAIRMAN. Were they deposited to your account? Did you receive the \$25,000?

Miss WOODNER. I see that they are deposited to my account. Does that answer your question?

The CHAIRMAN. Did you personally deposit them in your account or were they deposited by someone else?

Let me ask you, did you ever see those checks before yesterday when we showed them to you in executive session?

Miss WOODNER. I don't remember. This is 5 years ago. I may have seen them and I may not have seen them.

The CHAIRMAN. For what purpose were those \$25,000 in checks issued? Was it for compensation; was it for dividends; was it a loan? Just what was the purpose?

Miss WOODNER. I don't know what the exact purpose was.

The CHAIRMAN. You are not positive you received them?

Miss WOODNER. As a matter of fact, I did check my bank statement. You requested me to bring my checks and statements from the bank and I brought them to you and I went over them with you and with Mr. Williamson and I evidently did receive them. If you want me to try to remember the day and hour I received them, I can't say, absolutely.

The CHAIRMAN. What we would like to know is for what purpose they were, whether they were a loan, whether they were for salary, whether they were for compensation, whether they were for divi-

dends, because \$25,000 must have been to you, who was making \$100 a week, a lot of money to get at one time. Weren't you excited when you got this \$25,000?

MISS WOODNER. No, sir, I wasn't excited.

THE CHAIRMAN. You said a minute ago you couldn't remember having received them at all. Now, you say you weren't excited.

MISS WOODNER. If I was very excited, I would remember, wouldn't I? I don't think that I would be excited because it would probably be a part of business, in carrying out business, and what is the difference?

THE CHAIRMAN. Did you say you didn't consider it your money?

MISS WOODNER. Did you ask me that?

THE CHAIRMAN. Yes. Did you say you did not consider it—was it your money? Was it an advance or a loan to you to be repaid later? You sort of appear to me that you think we are trying to take advantage of you. We are not. We are just trying to get you to tell us the purpose of the \$25,000. If you don't know, say so, but don't say you don't remember. You either do or don't.

MISS WOODNER. Well, the circumstances may be a matter of memory; the circumstances may be a matter of not knowing, and I am trying to be very accurate.

THE CHAIRMAN. Well, I hand you a statement that you issued on March 10, 1949, and ask you if you signed that statement, and if it is a true statement, and I will ask you to read the amount of cash you supposedly had on hand.

My first question is, Did you sign that statement? Is that your signature?

MISS WOODNER. I don't know exactly. It might very well be mine.

THE CHAIRMAN. Did you sign it?

MISS WOODNER. Do you mean do I remember signing it?

THE CHAIRMAN. Yes.

I might say this, that if the statement was given to FHA for the purpose of convincing them that they ought to give you a mortgage commitment, would you know that?

Were you ever a sponsor of one of these so-called FHA projects?

MISS WOODNER. Well, I might have easily been. I do have a percentage in the company.

THE CHAIRMAN. Did you have \$17,000 in the bank on March 10, 1949, in the Corn Exchange Bank, Lincoln Square, Brooklyn, N. Y.?

MISS WOODNER. Well, if you let me look at my statement, I can tell you.

THE CHAIRMAN. This is March 11. The nearest thing to it here is March 11, where it says \$15,000. On March 10 I think you will find you have \$600.

MISS WOODNER. Would you repeat your exact question?

THE CHAIRMAN. Did you have \$17,346 in the Corn Exchange Bank on March 10? What does your statement show? You have it right before you. If you can't read it, let your attorneys do it. Tell us how much the bank balance was on March 10.

MR. WILLIAMSON. Well, I am disturbed, Mr. Chairman, because there is a withdrawal of \$5,000 and I don't know whether it is ahead or behind the \$15,000, but it does recite—this statement recites that on March 11, 1949, that the statement was prepared, that the bank shows

a balance of \$15,307.82, but on the same day, apparently immediately before or after, there were 2 large deposits and 2 large withdrawals.

The CHAIRMAN. You will find right under where it says, "Cash, \$17,000," you will find United States Government bonds, \$15,400.

Did you have \$15,400 worth of bonds on March 10, 1949?

Miss WOODNER. I can't say that I remember it, but I assume, or it certainly seems to me, that I did if it is written on here.

The CHAIRMAN. Do you have \$15,000 worth of bonds today?

Miss WOODNER. Well, I don't know. If they would show me the figures, I would know.

The CHAIRMAN. Well, you have the statement before you there, showing that you had them on March 10.

Miss WOODNER. Then perhaps I have them.

The CHAIRMAN. Now, it says, "Real estate," down a little further, that you own \$21,764.63 worth of real estate in Minneapolis, Minn. Did you ever own any real estate in Minneapolis?

Miss WOODNER. I probably did.

The CHAIRMAN. What do you mean by "probably did"?

Miss WOODNER. Well, my family owns real estate and I am quite sure I was a part of it. You want to know exactly how much and I don't know exactly how much.

The CHAIRMAN. Well, you just testified a moment ago that you received \$25,000 in March, from the Jonathan Woodner Co. Did you owe the Jonathan Woodner Co. \$25,000 at the time the statement was made out?

Miss WOODNER. The statement?

The CHAIRMAN. At the time the statement you have before you was made out. Under "Liabilities," you show accounts payable only \$760.

Miss WOODNER. Yes.

The CHAIRMAN. Did you owe the \$25,000 to the Jonathan Woodner Co., that they had advanced to you, if that is what it was, an advance?

Mr. WILLIAMSON. He is talking about the \$25,000 that he has the checks for.

Miss WOODNER. Do you mean the two checks?

The CHAIRMAN. Yes, on March 10, Jonathan Woodner Co. gave you a check for \$15,000. On March 23, they gave you a check for \$10,000.

Miss WOODNER. Yes.

The CHAIRMAN. You did not show on this statement of March 10 that you owed them \$15,000.

Precisely, Miss Woodner, what we are trying to find out is the purpose of these two checks, for \$25,000. Were they loans, were they dividends, were they gifts? We can't find out from you and we can't find out from Max Woodner.

Miss WOODNER. There was a lot of business going on all the time. I was not in the office very much at all; hardly ever. How would I know what each of these items are, unless I worked in it and knew what the business problems are? I know that I have a part of the business.

The CHAIRMAN. What do you mean you knew you had a part of the business? You mean you were a stockholder? You owned 6 percent, did you not, of the Shipley Corp., which owned the Jonathan Woodner Co., along with 23 or 24 other corporations, is that correct?

Miss WOODNER. Well, it probably is, I don't know exactly, but I know it was a family company and I am a member of the family and I had a part in it and therefore, I feel I was entitled to certain things.

The CHAIRMAN. I don't question it. We are just trying to find out the "why" of these transactions. You say you were a corporation. You were not a partnership; you were a corporation. You can't just write a check for \$25,000 and give it to somebody without accounting for it.

Miss WOODNER. Yes, but they had to carry on the business, didn't they?

The CHAIRMAN. They didn't have to carry on the business by giving you a check for \$25,000.

Miss WOODNER. Well, if I had a part in it, don't I have the—

The CHAIRMAN. That is the point. Was it a loan; was it a dividend, was it an advance? What was the purpose of it?

Miss WOODNER. How would I know exactly what one of those things it was? If I wasn't there all the time—I don't know the various things they had to do to get the houses built.

The CHAIRMAN. Did you give your brother authority to sign your name at any time he cared to?

Miss WOODNER. Yes; my brothers, any one of them, had authority to sign my name.

The CHAIRMAN. Isn't it a fact that they signed your name any time they wished? They deposited money in your account any time they wished? They drew it out any time they wished, and they didn't see anything unusual about it and you didn't know what was going on?

Miss WOODNER. I assumed they had to do it as a part of the business. I don't imagine they would stop and explain everything to me every-time.

The CHAIRMAN. But they were a corporation, you say. They didn't have to explain to the individual stockholders, the corporation doesn't.

Senator BUSH. Is it true that when you received these checks, you really didn't know what they were for, you simply trusted in your brothers or your partners in the company, which you had an interest in, and you simply felt that this was part of the formal transactions of the business, that these moneys came in and went out—you really didn't know what they were for? Is that right or not?

Miss WOODNER. That is right; I assumed that the things have to be done, that they have to carry on the business. I had full trust in either one of my brothers. I know nothing they did was wrong and it was just a matter of long explanations to me, which I could probably add nothing to by what I would say, anyway.

It would be very unnatural, it seems to me, for it to be done any other way.

Senator BUSH. In other words, you had complete confidence in them, is that right?

Miss WOODNER. I have every reason to have complete confidence in them.

Senator BUSH. So whatever they did in the way of giving you money or asking you to give them back money, you didn't question it, but did it because you had confidence in them, is that true?

I am not trying to mix you up; I am trying to help you.

Miss WOODNER. Of course, I had complete confidence and I am sure that everything they did was very good. Everything worked out very well.

They built some of the most beautiful buildings in this country and right in this city they built the Woodner, which is by far the most beautiful building on the east coast.

The CHAIRMAN. Thank you very, very much. We appreciate your testimony.

If you will just stand by, we may want you a little later.

Now the next witness will be Mr. Ian Woodner.

Mr. Woodner, will you please be sworn? Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. I. WOODNER. I do.

TESTIMONY OF IAN WOODNER, THE WOODNER, WASHINGTON, D. C., ETC., ACCOMPANIED BY ROBERT H. WINN AND JOSEPH E. WILLIAMSON, COUNSEL—Resumed

The CHAIRMAN. Thank you, sir. Will you please be seated and give your full name to the reporter.

Mr. I. WOODNER. My name is Ian Woodner. Address, 39 West 67th Street, New York City.

Mr. WILLIAMSON. Again, may we have the photographs taken now?

The CHAIRMAN. The photographers will please take their pictures now. We always try to comply with the wishes of the witnesses.

Mr. SIMON. Mr. Woodner, in the spring of 1949, how many bank accounts were there over which you had control?

Mr. I. WOODNER. I do not know.

Mr. SIMON. Well, you had something like 35 corporations in the Shipley group, didn't you?

Mr. I. WOODNER. Yes, sir.

Mr. SIMON. And you had a bank account at the Riggs?

Mr. I. WOODNER. May I correct that statement on 35 corporations. I don't know if there were 35, but approximately thereabouts.

Mr. SIMON. Approximately 35 or 36 corporations?

Mr. I. WOODNER. Yes. I don't know the exact one.

Mr. SIMON. And there were several individuals who had bank accounts?

Mr. I. WOODNER. I believe so.

Mr. SIMON. Were there any checks drawn on any of those many bank accounts in February or March 1949 payable to cash or currency, in amounts of as much as \$1,000 or more?

Mr. I. WOODNER. Not that I remember, sir.

Mr. SIMON. Do you know whether there were?

Mr. I. WOODNER. None, that I remember, sir.

Mr. SIMON. Are you in a position to say that there were none or are you merely saying that you don't remember?

Mr. I. WOODNER. I am in a position to say that I do not remember what happened with what you term approximately 35 corporations over a period of several months.

Mr. SIMON. You are not saying there were no checks to cash in that period but merely that you don't remember; is that right?

Mr. I. WOODNER. I believe I would have to have a phenomenal memory to be able to answer that question.

Mr. SIMON. Is it customary for you, Mr. Woodner, to draw checks to the order of cash or currency for amounts of \$1,000 or more?

Mr. I. WOODNER. Well, it happened but I wouldn't say it is a normal procedure; no.

Mr. SIMON. Have you made any effort since we were here last to find out whether you drew any checks to currency in that 2 months' period of amounts of \$1,000 or more?

Mr. I. WOODNER. I believe we have, but as to date, as far as I know, I have not been made aware of the fact.

Mr. SIMON. Who is Edward Jason?

Mr. I. WOODNER. Edward Jason is an employee.

Mr. SIMON. Is he still an employee of yours?

Mr. I. WOODNER. Yes, sir.

Mr. SIMON. What is his position?

Mr. I. WOODNER. He is in the office.

The CHAIRMAN. What is his salary?

Mr. I. WOODNER. I don't know exactly. I would say possibly \$150 or \$200 a week, now.

The CHAIRMAN. Does he own any stock in the corporation?

Mr. I. WOODNER. I do not believe he does.

The CHAIRMAN. He owns no stock in any of your corporations and his salary is about \$150 a week?

Mr. I. WOODNER. He has been with me a fairly long time.

The CHAIRMAN. Does he have a lot of interests other than working for you?

Mr. I. WOODNER. I think his major interest is working for us.

The CHAIRMAN. Working for you at \$150 a week?

Mr. SIMON. Mr. Woodner, I show you a statement, or what purports to be a statement, of Edward Jason as of October 21, 1949, and ask you if you have ever seen that before.

The CHAIRMAN. What does that show his net worth to be?

Mr. I. WOODNER. \$1,131,545.

The CHAIRMAN. Isn't that a rather large net worth for a man who works for \$150 a week?

Mr. I. WOODNER. Yes, sir.

Mr. SIMON. Have you ever seen that statement before, Mr. Woodner?

Mr. I. WOODNER. I am not too familiar with it.

Mr. SIMON. Do you know anything about it?

Mr. I. WOODNER. About him?

Mr. SIMON. About that statement.

Mr. I. WOODNER. I believe I know something about it.

Mr. SIMON. That statement shows that as of October 1949, Mr. Jason was the owner of the leasehold of Rock Creek Plaza, is that right?

Mr. I. WOODNER. That is correct.

Mr. SIMON. Was he?

Mr. I. WOODNER. If the statement shows it, I assume it was.

The CHAIRMAN. Rock Creek Plaza being the Woodner Apartments?

Mr. I. WOODNER. Rock Creek Plaza, Inc., is the corporation which owns the building.

Mr. SIMON. And the leasehold referred to on that statement is the land under the Woodner, is that right?

Mr. I. WOODNER. Yes, sir.

Mr. SIMON. Now, you personally bought that land, didn't you?

Mr. I. WOODNER. Yes, sir.

Mr. SIMON. And I have a statement of August 25, 1949, of yours which says that as of that date, you owned the leasehold on the Rock Creek Plaza and it was valued at the precisely same amount of \$1,120,000.

I show you that and ask you if that is a true statement.

Mr. I. WOODNER. I see that \$1,120,000, yes.

Mr. SIMON. We have two statements there 60 days apart, using the same value for the leasehold, \$1,120,000, but one says you own it and the other days Jason owns it. Did Jason buy it from you in that 60-day period?

Mr. I. WOODNER. May I consult with counsel?

Mr. SIMON. Yes.

The CHAIRMAN. What is the answer, Mr. Woodner?

Mr. I. WOODNER. Will you repeat the question, please?

Mr. SIMON. Yes.

The statement of August shows that you own the leasehold in the value of \$1,120,000. The statement of October shows Mr. Jason owned it and my question is whether he bought it from you in that interval of time.

Mr. I. WOODNER. I wouldn't say he bought it from me.

Mr. SIMON. Did he acquire it from you?

Mr. I. WOODNER. I don't say he—he didn't acquire it from me.

Mr. SIMON. If you owned it in August and he owned it in October, how did it change hands?

Mr. I. WOODNER. Well, it changed hands as a result of—of difficult circumstances.

The CHAIRMAN. Difficult?

Mr. I. WOODNER. Yes.

Mr. SIMON. Well, the statement of his in October, Mr. Woodner, shows that he owned that \$1 million asset and he had no liabilities. That is no substantial liabilities.

Mr. I. WOODNER. Perhaps I should explain it.

Mr. SIMON. It makes him the owner of a \$1 million asset, with no counter liabilities. I would like to know what he used for money to acquire that project.

Mr. I. WOODNER. I will explain it to you. It is a rather tender subject but I will go into it.

Mr. SIMON. If what you are going to say that he merely held it in trust for you and didn't own it himself—is that what happened?

Mr. WILLIAMSON. He was acting as his nominee.

Mr. SIMON. Is that right, Mr. Woodner?

Mr. I. WOODNER. I would say as a result of my rather unsettled marital situation, at that time—

Mr. SIMON. You put the land in Jason's name?

Mr. I. WOODNER. Mr. Jason was probably acting for me as a nominee.

Mr. SIMON. So he didn't own the land in October, did he?

Mr. I. WOODNER. I think title was in his name.

Mr. SIMON. But he didn't own it?

Mr. I. WOODNER. I don't know what you mean by own.

The CHAIRMAN. Did he pay for it?

Mr. WILLIAMSON. No; he did not pay for it.

The CHAIRMAN. Did he agree to pay for it? Did he sign a note?

Mr. SIMON. If he was your nominee, you owned it and not he; is that right?

Mr. I. WOODNER. Well, you are getting into a question of legal technicalities with respect to ownership and having a nominee.

Mr. SIMON. How can you say in the statement that he is worth \$1 million because he owns the land if he merely held it as nominee for you?

Mr. I. WOODNER. I didn't say it.

Mr. SIMON. Isn't that what the statement says?

Mr. I. WOODNER. That is what the statement says.

Mr. SIMON. Is the statement false?

Mr. I. WOODNER. I don't know.

Mr. SIMON. Who prepared the statement?

Mr. I. WOODNER. I really don't know.

Mr. SIMON. Was it prepared in your office?

Mr. I. WOODNER. I do not know.

Mr. SIMON. A little bit ago you seemed to know something about it.

Mr. I. WOODNER. Yes, I did know about the method by which it came into his name and it is a very natural one, I believe.

Mr. SIMON. After your marital difficulties, Jason was substituted for your wife as sponsor in this project?

Mr. I. WOODNER. I believe so.

Mr. SIMON. Wasn't that statement given to FHA at the time he was substituted as a sponsor?

Mr. I. WOODNER. I believe so.

Mr. SIMON. And the statement says he is worth \$1 million and that isn't true, is that right?

Mr. I. WOODNER. I wouldn't say it is not true.

The CHAIRMAN. If you can't say it isn't true can you say that it is true?

Mr. I. WOODNER. I can say neither of those things because we are getting into what is probably a legal determination of what the functions and obligations are of a nominee.

Mr. SIMON. Mr. Woodner—

Mr. I. WOODNER. I will say this, however, that in the eyes of the FHA, the purpose of sponsorship, the \$1 million that may be shown in my statement and the million dollars shown in his statement were recognized as one and the same and that they were not duplications in their estimation of the assets.

The CHAIRMAN. Why did you put it in both statements?

Mr. I. WOODNER. One preceded the other. One was before a certain period we are talking about and the other was after that certain period. Now, I may elaborate further and say that when it took place—and I am not certain of this, because those periods are a little confused in my mind—that I may have been removed as the sponsor and therefore the information by which FHA evaluated the assets by which—to assure the proper completion of the building, were not—were canceled out, you might say.

Mr. SIMON. Mr. Woodner, I show you a folder which your attorneys produced here a week or so ago, which has a label on it, "Max Woodner,

American Security & Trust Co.," and ask you if you have ever seen that before.

Mr. I. WOODNER. I hadn't seen it before the attorney showed it to me the other day.

Mr. SIMON. Do you know where the attorney obtained the documents in that folder?

Mr. I. WOODNER. I assume they got it from the files in our office.

Mr. SIMON. The documents in that folder are your brother Max's bank statements for April and May 1949. He has testified here in substance this morning—and I believe you heard him—that he doesn't know whether he ever saw his bank statements for February and March. Is it a fair assumption that if the April and May statements were in your office that the February and March statements might have been there at one time?

Mr. I. WOODNER. They might have been.

Mr. SIMON. Where are they now?

Mr. I. WOODNER. I do not know.

Mr. SIMON. In 1949, were Max's bank statements delivered to your office?

Mr. I. WOODNER. I do not know exactly that.

Mr. SIMON. Is there anybody who knows where Max's February and March bank statements are?

Mr. I. WOODNER. I can't answer that, sir.

Mr. SIMON. You see, that is a rather important 6-week period as you know, Mr. Woodner.

Mr. I. WOODNER. Yes, it is an important period of the long time passed; yes, sir.

Mr. SIMON. That is the 6 weeks when the loan application was pending at FHA and it is the 6 weeks when \$219,000 moved around in different bank accounts.

Mr. I. WOODNER. That is correct, sir.

Mr. SIMON. What effort has been made to locate those bank statements?

Mr. I. WOODNER. I would say an extensive effort has been made. I know personally, this, that we have looked through all the files in our office, we have looked through the files of all our offices which have been assembled in a special room in the Woodner where I believe you have seen the rather extensive files that are there now. I know personally that Max called his wife in Texas last night to see if she could find them.

Mr. SIMON. Do you know whether they have been destroyed?

Mr. I. WOODNER. No, sir; I do not know.

Mr. SIMON. You will continue to look for them, then?

Mr. I. WOODNER. We will continue to look for them because I am as anxious to find them as you are.

Mr. SIMON. I show you a photostat of a receipt dated April 11, 1949, which purports to bear the signature of Edward Jason, for \$13,000 of Treasury bonds and ask you if that is Mr. Jason's signature.

Mr. I. WOODNER. I do not know exactly. It seems to be his.

Mr. SIMON. Did you instruct him on April 11, 1949, to pick up those Treasury bonds at Carreau & Co.?

Mr. I. WOODNER. I don't know if I instructed him. I assume the office may have.

Mr. SIMON. Did you arrange to open an account for your then wife at Carreau & Co., on March 11, 1949?

Mr. I. WOODNER. I discussed the problem with Abner Goldstone.

Mr. SIMON. Did you arrange to open an account for her at Carreau & Co. in March 1949?

Mr. I. WOODNER. I don't know whether I did or whether Mr. Jason did.

Mr. SIMON. I show you a trading authorization document of Carreau & Co. which has your then wife's signature on it and which has your signature on it, and ask you if that refreshes your recollection.

Mr. I. WOODNER. That seems to be correct, sir.

The CHAIRMAN. Is that your signature?

Mr. I. WOODNER. Yes, sir.

Mr. SIMON. Do you recall now opening that account?

Mr. I. WOODNER. Well, I didn't write it down but I signed this document.

Mr. SIMON. The records of Carreau & Co. show the account was opened on March 14, 1949, and closed April 11, 1949. During the entire time that you were married to the then Ruth Woodner, did she ever have any other brokerage account?

Mr. I. WOODNER. Not that I am familiar with, sir.

Mr. SIMON. What was the purpose of opening this brokerage account in March 1949?

Mr. I. WOODNER. Probably for the purpose of purchasing stock.

Mr. SIMON. Did you have enough excess funds at that time that you could be investing in stocks?

Mr. I. WOODNER. We had some.

Mr. SIMON. Your wife's household account would indicate that that account at least was rather lean, and these other personal accounts of the other members of your family were rather lean until these moneys went in which came back, which would indicate that you didn't have excess funds to invest, Mr. Woodner.

Mr. I. WOODNER. It may indicate it to you.

Mr. SIMON. Your position is that you had excess funds to invest.

Mr. I. WOODNER. As a family, let us say, we had it.

The CHAIRMAN. What did you do with the bonds?

Mr. I. WOODNER. Which bonds?

The CHAIRMAN. The \$13,000 worth of bonds that Mr. Jason received, and the \$5,000 worth of Philadelphia Electric Co. bonds?

Mr. I. WOODNER. I believe they were returned to the company.

Mr. SIMON. What company?

Mr. I. WOODNER. Jonathan Woodner Co.

Mr. SIMON. When?

Mr. I. WOODNER. I do not know.

The CHAIRMAN. What did Jonathan Woodner Co. do with them?

Mr. I. WOODNER. I do not know.

The CHAIRMAN. Where are they today?

Mr. WILLIAMSON. Senator, may I volunteer this. Your accountants who are out on the project and in the room that we have assigned you, have discovered a record of that, I believe, and I think that you might want to check with them.

Mr. SIMON. Let's ask this witness what happened to the \$13,000 of bearer bonds.

Mr. I. WOODNER. I think these bonds were taken by Mr. Jason and returned to the company.

The CHAIRMAN. What did the company do with them?

Mr. I. WOODNER. The company kept them in its vault.

The CHAIRMAN. Do you have them now?

Mr. I. WOODNER. I am not certain, sir. I know there has been a search made for the records.

Mr. SIMON. Have the bonds ever been disposed of by the company?

Mr. I. WOODNER. They may have been.

Mr. SIMON. Do you know whether they were?

Mr. I. WOODNER. That is what I think Mr. Williamson is trying to determine but I don't know.

Mr. SIMON. For your information, Mr. Woodner, there is a \$10,000 bond bearing serial No. 94426 and \$1,000 bonds bearings serial Nos. 298352, 298353, and 298354. They are 2½-percent bonds of the series 1967-72.

Can you tell us what happened to those specific four bonds?

Mr. I. WOODNER. I think certainly they went into the vault of our company.

Mr. SIMON. Are they still in the vault of your company?

Mr. I. WOODNER. I am not certain, sir.

The CHAIRMAN. You knew last night in executive session—we went all through that—didn't you look this morning to see whether they were or not?

Mr. I. WOODNER. I wasn't in executive session last night, sir.

The CHAIRMAN. Your attorneys were.

Mr. WILLIAMSON. Senator, I started to tell you that I believe your accountants discovered a record.

Mr. SIMON. Do our accountants have the bonds?

Mr. WILLIAMSON. I don't know.

Mr. SIMON. Where are the bonds today?

Mr. WILLIAMSON. Mr. Simon, if you would let me explain to the Senator, I would tell him.

The CHAIRMAN. Well, I don't know whether we want you testifying.

Mr. WILLIAMSON. He doesn't know, Senator.

The CHAIRMAN. We know he doesn't know but we would like to find out why he doesn't know. He is head of the corporation.

Let me ask you this, Mr. Woodner. Have you ever given any FHA official anything of value?

Mr. I. WOODNER. No, sir.

The CHAIRMAN. Anything with a value of over \$100?

Mr. I. WOODNER. No, sir.

The CHAIRMAN. Of over \$10?

Mr. I. WOODNER. No, sir—well, if you call a bottle of whisky over \$10.

The CHAIRMAN. You testified before, Mr. Woodner, that on these checks, these Ruth Woodner checks, that they were given to her for the purpose of operating your business, for the purpose of being a sponsor. Is buying stocks on the New York stock exchange and later buying bonds, when we can find no record of where you have ever bought any bonds before, considered a part of operating your business?

Mr. I. WOODNER. I think it is quite normal. There is always the first time when you buy a bond.

The CHAIRMAN. Why haven't you bought bonds since?

Mr. I. WOODNER. Is that a question?

The CHAIRMAN. Yes.

Mr. I. WOODNER. Why haven't we?

The CHAIRMAN. Yes.

Mr. I. WOODNER. We have.

The CHAIRMAN. Where is the record? Can you show me on any of your statements where you show owning about \$18,000 worth of bonds?

Mr. I. WOODNER. Which ones?

The CHAIRMAN. Statements that you filed with FHA and other people, since 1949. You don't show these bonds on your statements.

Mr. SIMON. I have a statement here of the Jonathan Woodner Co. dated August 22.

The CHAIRMAN. 1949. Show me the bonds on it, will you please?

Mr. I. WOODNER. I don't see anything on here about bonds.

The CHAIRMAN. Why did you give the money to Ruth Woodner and have her buy the stocks and then buy the bonds? Why didn't you just have Jonathan Woodner Co. buy the bonds direct? Why did you deposit the money to her account, have her open up the account, buy the bonds, and then, you say the bonds came back into the Jonathan Woodner Co.?

Mr. I. WOODNER. I believe they came back into the Jonathan Woodner Co. at the time that our marital disturbance took place.

Mr. SIMON. Who held them in the interval?

Mr. I. WOODNER. I believe they were brought to my home.

Mr. SIMON. To your home?

Mr. I. WOODNER. I believe so.

Mr. SIMON. By Jason?

Mr. I. WOODNER. I believe so.

Mr. SIMON. Where were they kept in your home?

Mr. I. WOODNER. Well, in my home, I conducted my business from my home in New York City.

Mr. SIMON. Did your then wife know the bonds were in the house?

Mr. I. WOODNER. I don't know what she knew.

Mr. SIMON. Did you ever tell her?

Mr. I. WOODNER. I don't remember "Yes" or "No" whether I did.

Mr. SIMON. Whose bonds were they in the interval from April, when Jason picked them up, until you separated in October or November?

Mr. I. WOODNER. I imagine they were in Ruth Woodner's name.

Mr. SIMON. They were bearer bonds, but who owned them?

The CHAIRMAN. They weren't in anybody's name. They were bearer bonds.

Mr. I. WOODNER. Well, I think Jason picked them up. He got authorization from her to pick them up.

Mr. SIMON. Who owned those bonds?

Mr. I. WOODNER. I really don't know.

Mr. SIMON. Do you know who owned them from the date he picked them up until the date you separated?

Mr. I. WOODNER. I don't know exactly. I don't have the record of the transaction.

The CHAIRMAN. Who owned them after you separated?

Mr. I. WOODNER. I believe they went into Jonathan Woodner Co.

The CHAIRMAN. How did they get into the Jonathan Woodner Co.? Did you pay your former wife for them? She owned them. They were her bonds. Did you reimburse her for them? Did you pay her for them?

Mr. I. WOODNER. No; she assigned them, I believe.

The CHAIRMAN. She assigned them?

Mr. I. WOODNER. I believe so.

Mr. SIMON. Are you certain of that?

Mr. I. WOODNER. I believe so.

Mr. SIMON. Did you have any discussion with her?

The CHAIRMAN. Did she sign a piece of paper giving you these bonds?

Mr. I. WOODNER. I believe she did, sir.

Mr. SIMON. Do you have that?

Mr. WILLIAMSON. Mr. Simon—

Mr. SIMON. I just asked him if he had the piece of paper he just referred to.

Mr. WILLIAMSON. Could we say this—

The CHAIRMAN. No, you can't. You can tell him to say what you want to, because this is a pretty serious matter.

Mr. WILLIAMSON. You might explain, Mr. Woodner, that we are concerned with your marital situation being brought into a congressional hearing and you feel it might hurt your children.

Mr. SIMON. We are not trying to bring his marital situation into the record but we are trying to find out what happened to \$13,000 of bearer Government bonds which his wife has testified she didn't know she owned and which she had no discussion with him about at the time of this separation.

The CHAIRMAN. Plus \$5,000 worth of Philadelphia Electric bonds.

Mr. WILLIAMSON. We will be glad to show you—we do not like to put it in the record—his settlement agreement.

Mr. SIMON. We are not interested in that, we are interested in these bonds. Do you say you have a piece of paper by which she assigned her interests?

Mr. I. WOODNER. I am certain I do.

Mr. SIMON. And it refers specifically to these bonds?

Mr. I. WOODNER. I believe so. I am not absolutely certain but I believe so.

Mr. SIMON. Can you give that to us?

Mr. WILLIAMSON. May we have just a moment here to see if we have it?

The CHAIRMAN. Yes.

What do you find?

Mr. WILLIAMSON. Again we would like to keep this out of the record but we would be pleased to show you that we do have this instrument. We would like to have it returned. We hope it isn't a part of this hearing.

The CHAIRMAN. We will take these and give them back to you later. We will have them photostated.

Mr. WILLIAMSON. You will have them photostated and return them to us?

The CHAIRMAN. Yes.

Mr. WILLIAMSON. That is all right.

May I have the power of attorney?

Mr. SIMON. I take it, Mr. Woodner, that in the course of events you can produce the bonds with the serial numbers we have spoken of, or you can give us a record of a bank or brokerage house to which those bonds were delivered and sold; is that right?

Mr. I. WOODNER. Yes. As a matter of fact, since we have a transcript of the Carreau & Co. account with Ruth Woodner in approximately the same time that you have, I will say this, that we have made every effort to trace it in our books. It is one of the first orders of business. We have made inquiry of the Treasury Department to see when they were cashed so we can go back into our books and find out when they might be recorded.

Mr. SIMON. Will you furnish us with the information, either producing the bonds bearing those serial numbers or the information as to whom they were delivered?

Mr. I. WOODNER. I shall, sir.

Mr. WILLIAMSON. Senator, you have a power of attorney that that is not related and I wonder if we might have it. It is a general power bail.

Thank you very much.

The CHAIRMAN. Are there any further questions?

We are now going to recess indefinitely but will continue this hearing. All you people who were witnesses this morning will remain under subpoena because we may want you at a later date. But at the moment we are going to recess this hearing.

Mr. WILLIAMSON. Senator, he realizes he will remain under subpoena. This week he was supposed to have his children for his summer vacation and it was delayed until next week. May he leave next week?

The CHAIRMAN. There will be no hearing within a week or 10 days and possibly 2 weeks. There will possibly be no further hearings on this matter until we return from our trip. However, we have Mr. Woodner scheduled for a hearing in Chicago on the Chanute Field matter.

We will now stand in recess until the call of the chairman.

(Whereupon, at 12:03 p. m., the committee recessed to reconvene at the call of the chairman.)

FHA INVESTIGATION

TUESDAY, AUGUST 24, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
New York, N. Y.

The committee met, pursuant to recess, at 10:15 a. m., in the north ballroom of the Hotel Astor, New York, N. Y., Senator Prescott Bush presiding.

Present: Senator Bush.

Also present: William Simon, general counsel; Thomas Kenney and Richard Hogue, assistant counsel, FHA investigation.

Senator BUSH. The committee will please be in order.

This hearing is being conducted by the Banking and Currency Committee of the Senate of the United States as part of its investigation of alleged widespread abuses and irregularities in housing problems administered by the Federal Housing Administration.

During 6 weeks of hearings in Washington the committee obtained information demonstrating that apartment builders made many millions of dollars on trifling investments of their own. This was made possible by FHA-insured mortgages in excess of the actual building costs.

As a result, tenants are paying inflated rentals and the Government runs a risk of loss eventually of very substantial proportions.

The committee also learned that thousands of homeowners had been victimized by racketeers, the so-called suede-shoe boys and dynamiters, who took unfair advantage of the home-repair and home-improvement program under title I of the Federal Housing Act.

As a result of the hearings in Washington, the committee was able to tighten up the new housing law of 1954 so as to reduce, if not entirely eliminate, the possibility of future abuses. The FHA of itself has issued regulations intended to accomplish the same purpose.

This is the first hearing outside of Washington. The committee has been informed that abuses of FHA programs in the New York metropolitan area have been the worst in the entire United States.

The hearings in New York will continue through Friday of this week, and the committee will then move to Los Angeles, and later to New Orleans and Chicago, Indianapolis, Detroit, and then back here to New York at the end of September for 4 more days, and then to Washington to conclude the hearings early in October.

The committee has adopted a set of rules, a code of fair procedures which include for the witnesses the privilege that they may be accompanied to the witness table by counsel who may advise them of their legal rights. Also, that no witness need be under television or newsreel cameras if he objects thereto.

Now we shall open these proceedings as I introduce counsel for the committee, Mr. William Simon of Chicago, assisted by Mr. Kenney, formerly of the FHA organization. I am going to ask Mr. Simon to call the first witness.

Mr. SIMON. Mr. McKenna.

Senator BUSH. Will you raise your right hand, please? Do you solemnly swear that the testimony which you shall give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. McKENNA. I do.

**TESTIMONY OF WILLIAM F. McKENNA, DEPUTY ADMINISTRATOR,
HOUSING AND HOME FINANCE AGENCY—Resumed**

Mr. SIMON. Mr. McKenna, will you give the committee your name and address, please?

Mr. McKENNA. My name is William F. McKenna. Residence, Los Angeles, Calif., temporarily Washington, D. C., Deputy Administrator of the Housing and Home Finance Agency.

Mr. SIMON. What are your duties there?

Mr. McKENNA. I was brought in to conduct an investigation of the Federal Housing Administration.

Mr. SIMON. When did that occur?

Mr. McKENNA. On April 12 of this year.

Mr. SIMON. Do you know at whose request you were brought in?

Mr. McKENNA. At the request of Mr. Cole, the Administrator.

Mr. SIMON. Can you briefly tell the committee what you have found in your investigation of the Federal Housing Administration, supplementing the testimony that you gave sometime ago in Washington?

Mr. McKENNA. I have furnished the committee with a statement here and I won't burden you by reading that. If the committee wishes to make it a part of the record—

Senator BUSH. Without objection, the statement will be made a part of the record at this point.

(The statement referred to follows:)

STATEMENT OF WILLIAM F. McKENNA, DEPUTY ADMINISTRATOR, HOUSING AND HOME FINANCE AGENCY, CONCERNING FEDERAL HOUSING SECTION 213 CASE INVESTIGATIONS IN THE NEW YORK AREA

As the committee knows, a great deal of the mortgaging out in section 608 cases has been concentrated in the New York area. Because excessive mortgaging out means higher rents for tenants and because mortgaging out means increased risks for FHA, we have tried to find out the reason why so much of this has happened in the New York metropolitan area.

It is already a part of the committee's record that there were many millions of dollars of mortgaging out in section 608 projects around New York. By way of example, in the Rego Park Apartments, Inc., Elmhurst, N. Y., the sponsors invested \$200,000 and almost immediately upon completion of the apartment development withdrew \$1,700,000 in dividends. In addition, the annual ground rent they receive under a 99-year lease is \$31,200. The option price to FHA on default is \$779,000. The sponsors had purchased this land for \$400,000.

In Glen Oaks Village, Inc., Bellerose, N. Y., the sponsors invested \$82,500 and withdrew \$4,600,000 by way of dividends when the projects were completed. Of this amount \$4,323,325 represents the difference between the mortgage loan and the cost of building the project. In Beach Haven Apartments, Inc., Brooklyn, N. Y., the mortgage loan exceeded the cost of the project by \$4,047,900. To date \$729,000 has been distributed as dividends.

The New York FHA officials in appraising the land before construction have been influenced by what its value would be after the construction was completed. On this basis, builders have been able to lease land which they have bought at a low price to their mortgagor corporations and receive a windfall profit accruing from the excessive annual ground rent obtained. Almost every device for windfall profits was used in the projects in this area. It is difficult to find any substantial effort made on the part of the New York FHA office to limit or prevent these windfalls.

Why?

It might be argued there was not much that FHA could have done without impeding efforts to meet the housing shortage. But this does not bear close analysis. If the cost of the projects had been figured realistically, so as not to have allowed unreasonable windfall profits, the builders could have received reasonable profits. This should have induced a sufficient number of builders to enter into such projects. At the same time the amount of each FHA-insured mortgage would have been considerably less.

Thus after completion the projects could have been run profitably without placing an undue burden on the tenants and continued as a going concern in the hands of the sponsors. In too many cases this was not the purpose of the sponsor when entering into this enterprise. Some wished to secure huge profits by the mortgaging out process. This mortgaging out process has placed a burden on tenants in the New York area, including high rents, which they would otherwise not have had to bear.

In an investigation of this nature, investigators always look for conflicts of interest on the part of the various persons concerned in any way with the project. One conflict of interest which might arise is that of a Government official whose duty it is to recommend or pass upon the project in question—the man who approves or disapproves the project, the man who appraises the land involved, the inspector who passes upon the adequacy of the specifications and the construction. So far as this Government official is concerned, the conflict of interest might arise from an outright bribe, it might arise from the payment of commissions or other profit in connection with the matter he handles, it might arise because of a financial interest he has in a corporation with which he does business in an official capacity, or it might arise in any one of a hundred other ways. Some conflicts of interest are legal, some illegal. But when there is a conflict of interest, the Government official is no longer working solely for the Government of the United States.

The director in New York throughout the 608 program and until 1952 was Thomas Grace. We have ascertained that Mr. Grace had financial interests in the law partnership of Grace & Grace. Mr. Grace never resigned from the firm of which he was a partner, although he was the New York State director of FHA from August 8, 1935, until August 1, 1952. While he claims he was not active in the firm's business, Mr. Grace did not request that his name be removed from the office door until December 1951. His name appeared on the firm's stationery and in the building register. So far as we know, no money was withdrawn by him from the firm's accumulated funds after 1938 until the years 1950 and 1951 when he drew, as a one-fourth partner, his share for those years in the amount of \$19,000 for each year.

The investigators further report that Grace & Grace, or the partner George T. Grace, was connected either as attorney for the sponsors of the project, or as a broker, or as counsel for the Mortgagee Funding Corporation of New York or for Lowell, Smith & Evers of 50 East 42d Street, New York, or in some other capacity, in at least 64 large-scale multiple housing projects. These involve 17 section 213 cases, 37 section 608 cases, and 10 section 207 cases. The total amount involved in the accepted applications in cases in which Grace & Grace or Mr. George T. Grace was interested, is \$84,771,030. A schedule of this information has been furnished to this committee.

In the case of Warrens Gardens the original application was submitted by Vernon Murphy, attorney, for \$325,000. This was turned down by the New York FHA office, which was then under the direction of Thomas Grace, as State director. Mr. George T. Grace superseded Mr. Murphy as attorney and resubmitted the application for \$485,000, and it was allowed.

In fairness to George T. Grace, however, it should be stated that the applications on three projects with which he was connected were rejected in the period during which Thomas Grace was State director. One other was withdrawn. Moreover, it may be pointed out in his favor that he has been connected with such projects subsequent to Mr. Thomas Grace's resignation. For example, in

Knolls Cooperative No. 2, hereinafter summarized, George T. Grace is to receive a broker's fee for securing the loan. The mortgagee bank, however, has stated that it had no dealings with George T. Grace, that the counsel for the builder asked him to pay the broker's fee to George T. Grace, and that John L. Hennessey, who actually procured the loan, waived his fee in Mr. Grace's favor. It is interesting to note that Knolls No. 2 is in the red.

George T. Grace was also the treasurer of Coinmach Industries Corp., which entered into a contract with at least 19 section 213 cooperative corporations investigated to service their coin-operated automatic washers and dryers for 35 percent of the intake. When the tenants got control, these contracts were canceled and more favorable contracts were made with other organizations. As an indication of the type of contract Coinmach made, in 1 case it was provided that the contract was to run for 5 years after notice was given to Coinmach that the project was 75 percent occupied.

The stockholder occupants in cooperative housing projects in the New York area have also been placed under a burden, because of the way in which the program was handled here. This results in the burden being placed on the very persons who were intended to be the beneficiaries of these projects.

These burdens may be traced in part to the conflict of interests between the builder-sponsors of the cooperative and the tenant-shareholders for whom they were supposed to be acting while the project was planned, organized, and constructed. We will explain. Section 213 of the National Housing Act was designed to provide people of moderate means an opportunity to secure adequate housing at economical costs through the medium of cooperative housing. Special provisions to assist veterans were included in this section. Congress authorized insurance by FHA on two types of cooperative projects—the management type and the sales type. In the management type, with which we are dealing in New York, a cooperative housing corporation is organized which plans, constructs, and manages the housing project for its members, each of whom has his own apartment in the project. In the sales type the corporation constructs separate individual homes for its members. Congress authorized FHA to furnish technical assistance in the organization of such corporations, and in the planning, development, construction, and operation of their housing.

Cooperatives have been sponsored in two ways—by the very group who plan to live in the project as their home, or by an individual or individuals who have no such plan, but can benefit financially from promoting such a project, such as a builder, an architect, or an attorney. FHA has stated that the most successful housing projects under section 213 have been those which were planned, organized, and developed by a sponsoring group interested in home construction industry or related fields. Most of section 213 projects have been developed by builder-sponsors who form the cooperative and keep control of it until after the contracts are entered into. Investigation shows that by using one device or another, the builder-sponsors have kept control in most instances until the construction is completed and the mortgage money is paid out. In some instances their control is even extended beyond that date. In other words, in most cases up until the time of occupancy there is no true cooperative. The builder is in control.

Operation under section 213 is attractive to builders because they do not have to put up any "risk money." The project is entirely financed by the proceeds of the insured mortgage loan and by the down payments made by the tenant-shareholders in return for their stock.

FHA has invited builders to operate under section 213. Ward Cox, former Assistant Commissioner of FHA, in a speech before the West Coast Home Builders Association during December 1952, stated:

"Other builders labor under the misapprehension that because the mortgagor corporation is formed as a nonprofit cooperative housing corporation no one can make a profit. This is not so. While the cooperative corporation may operate at a profit, once the project is completed and under the direction of its members it is obliged to return such profit to its members as patronage refunds. There is nothing in the law, however, that states that the original land owner, the contractor, subcontractors and materialmen, and others cannot make a profit in participating in the completion of the project and turning it over to the stockholder-member."

He pointed out all the financial advantages they could obtain for themselves in building under this section. The builders in the New York area have followed such advice. They not only organize and control the cooperatives during the pre-occupancy stage in most of the cases investigated, but they organize and con-

trol multiple corporations to deal with it, in various stages of its activity. Their builder-controlled cooperative made contracts with these various builder-controlled corporations covering the pertinent phases of its activities. Since the builder's interest is profit and since the tenant-stockholders are not represented in the cooperative by anyone but the builder, the tenant-stockholders' only protection was the rules and regulations of FHA and the competency of FHA officials in putting these and its established policy into effect. Was the conflict of interest between the builder-sponsor and the future home owner resolved by that? This is the story repeated over and over in the cases investigated.

The builder, through one of his corporations, acquired title or an option to the land upon which the project was to be built. Instead of selling the land, he leased it for 99 years to the builder-sponsored cooperative. The annual ground rent is fixed by FHA rules upon FHA's appraisal of the land. In the cases examined the appraisals were greatly appreciated. The improvements to be built on the land were undoubtedly taken into consideration in reaching the value upon which the ground rent was based. The option price to FHA in case of default was also based on this same valuation. Although the improvements on the land are entirely paid for by the tenant-stockholders, through their payments for the stock and the proceeds of the insured mortgage which they and not the builders have to pay off, nevertheless their rent was increased by virtue of the very buildings which they themselves are paying for. Without putting out one nickel beyond the price of the raw land and the cost of holding it, together with whatever they may spend for off-site improvements, and without assuming any risk whatsoever, owners of the land have created an increased annuity for themselves and their children. Everything above the price of the land (and the off-site improvements) is net. The tenant-stockholders pay the taxes. In fact, although they do not own the land, they assume all the responsibilities and obligations of a landowner in connection with it. If sound appraisals of the land had been made by FHA officials, tenant-stockholders would have been protected against excessive ground rent. As a result of the investigation ordered by this administration, FHA appraisal forms are being revised and more refined instructions are being given to field appraisers so that more accurate appraisals will be made in future cases. Many stockholders would prefer that the land be purchased outright, but since the builder-sponsor is in control at this stage of the proceedings, they have up to now had no voice in the matter.

Moreover, the builder-landowners in some cases, when construction is 55 percent completed, have secured a mortgage loan on the land as improved. On the assumption that the money received is a loan, they fail to pay income tax. In three projects—Clearview Gardens, Deepdale, and Beech Hill—incorporating 13 insured mortgages on land bought for approximately \$1,423,732.49 loans totaling \$4,167,421 were obtained. These are related projects. Investigation shows that part of the proceeds of the loans in Clearview Gardens was paid to the builder-sponsored Little Bay Construction Co. to enable Little Bay to pay off the debentures representing sums it borrowed initially to finance itself.

Little Bay's profits on construction apparently went in part to finance the tenant-subscribers' downpayments. Builders were afraid they could not find tenant-subscribers who could finance their own subscriptions, so they organized an acceptance company, Clearview Associates, Inc., to help finance them. Little Bay loaned the money to the acceptance corporation. The acceptance corporation agreed to accept 25 cents per room per month per tenant and, in addition, the tenant-subscribers were to pay through the Cooperative Corp. any money which might accumulate to their credit, such as patronage refunds. It was expected that \$400,000 would be paid in this manner. However, only \$75,000 was paid. This was the carrying charge collected before amortization payments started. The payment of 25 cents per room by tenants and any other payments by them has been stopped. The books of Little Bay show it has written off two-thirds of the amount advanced to the acceptance corporation as a loss. Suit has been brought by the cooperatives against the builders alleging substantial defects in construction and other matters. Similar situations will be found in regard to the disposition of the land mortgage proceeds obtained in Deepdale and Beech Hill. Builders are no longer allowed by FHA to finance the tenants' subscriptions.

Disregarding the conflict of interests, Herman L. Weisman acted as attorney for the builders and all the corporations involved, as well as for the cooperatives. He was given an 8½ percent cut in the profits, including those made on the land. Besides, he received legal fees in excess of \$135,000. It has been stated

to the investigators that Mr. Weisman justified his fees to the principals in part on the grounds that he had to pay Mr. George T. Grace, with whom he was working very closely in connection with the promotion of these projects. Canceled checks made to Mr. Weisman with the initials "GG" on them, totaling \$15,000, have been found. The builder's accountant has stated to the investigators that "GG" means the proceeds went to George T. Grace.

As soon as FHA officials have approved the project as eligible, the builder-sponsor secures subscriptions for the cooperative stock. Several abuses have been found in connection with the stock subscriptions and issue. At the time the subscription is obtained, the prospect is told the estimated amount he will have to pay per year to carry his part of the project. In the majority of cases investigated this amount has been underestimated. After they have moved in, tenant-stockholders found it was necessary to increase this amount. This underestimation of the carrying charges has been found to be largely due to the fact that the Underwriting Division of FHA, especially in the New York office, was not arriving at the estimates realistically. Taxes had been underestimated. A too conservative estimate of operating expenses including salaries had been made. Income to be received from garages had been overestimated. Protests concerning this unrealistic method of estimating carrying charges have been made by Washington FHA people to the Underwriting Division in the main office and in New York.

A letter went out to all field offices on February 23, 1954, stating that the director has the responsibility at the time when he approves the occupancy permits to review the carrying charges and make sure that they are on a basis which will guarantee an adequate income. If any increase over the estimates of carrying charges formerly made is required, the tenant-stockholders are to be advised before they move in. However, if the prospective stockholder had been more accurately advised at the time his subscription was solicited, he could have determined before he bought the stock whether or not he could afford to live in the project. To people of moderate means it is important to know what the carrying charges will be. The interest of the builder-sponsor was to get someone to sign on the dotted line and procure the downpayment. The interest of the prospect was to know his future housing costs.

Another abuse in connection with the stock pertains to its issue. The builder-sponsor likes to keep control of the cooperative until the construction is completed and all the mortgage money is disbursed. In a number of earlier cases the builder kept control by neglecting to issue stock to the subscribers until the building was completed or almost so.

The present FHA policy requires the stock to be issued prior to the endorsement of the note for insurance, and since November 1951 FHA has required a certificate from the cooperative to this effect. A case involving an allegedly false certificate in respect to the issuance of stock in connection with the Bay Parkway cooperative project has been referred to the Department of Justice for appropriate action.

Since about September of 1952 FHA has required that all cooperatives' bylaws contain provisions whereby a certain percentage of tenant-shareholders can call a meeting to replace directors. In the cases investigated the builder-sponsors, by one device or another, have usually attempted to keep control until the mortgage money is paid out and they can accept the building from the construction company as complete and thus in effect release themselves from further responsibility on the project. In the second Knolls project, for example, the tenant-shareholders had to resort to court action to get a meeting called to replace the builder-sponsored directors. In two cases, one of the Knolls cooperatives and the Merrick Gardens case, the investigators were told of misrepresentations of another nature which had been made in connection with the subscription of stock. If 65 percent of the stock is subscribed by veterans, FHA is authorized to increase the amount to be insured from 90 percent of FHA's estimated replacement value to 95 percent. It was stated to the investigators in regard to these two cases that while a 65 percent veterans' participation was represented to FHA, the percentage of veterans' participation was in fact far less.

Construction of the project is by a builder-sponsored construction company. There is no competitive bidding. The builder-sponsored cooperative awarded this construction company a lump-sum contract. At the time this was given, the builder had FHA estimates of the estimated replacement costs and the amount it would loan on the project. There is undoubtedly a conflict of interest between the tenant-subscribers to the stock of the cooperative and the coopera-

tive's builder-sponsor at this point. The tenant-subscribers' downpayments and the proceeds of the FHA's insured mortgage which they must pay are used to finance the construction of the project which they will occupy. They would then want a sound construction at the lowest possible price. The builders were naturally interested in profit. But since these future occupants of the property were not in control of their cooperative corporation at this time, or even represented on the board of directors, the only protection they had against a construction contract in an excessive amount was FHA's estimate of replacement value. The same people in the New York office who figured the section 608 estimates, which resulted in large windfall profits, did the estimating under section 213. It is questionable, then, whether the future occupants had any protection against excessive profits by the builders in this area. Investigation as to actual profits under the section 213 construction contracts has not been completed.

If carrying charges which the occupants pay are less than rent in comparable property, and this is sometimes claimed to be as high as 20 percent, the saving is due chiefly to the economy afforded by cooperative management, the elimination of landlord's profits, and the fact that the FHA-insured mortgage runs for 40 years and is amortized at a flat rate. It is not due to economy caused by cooperative construction.

In this type of project the mortgage proceeds were paid out in installments as the work proceeded. The FHA made an endorsement for insurance of each installment. Ten percent was held back until the work was completed. The builder was required to give a personal bond for completion in the amount of 10 percent of the contract, which is effective for 1 year after the completion of the construction. FHA inspectors and the architect certified as to the adequacy of the work and of the materials used. In spite of the procedure established, tenant-stockholders have complained of serious defects in construction, alleging that the building was not constructed according to specifications. The investigation has verified a number of these defects.

In practically every case investigated, the architect employed on the project, who passes on the adequacy of the construction and is supposed to protect the interest of the cooperative, its stockholders and FHA, waived his fee to the cooperative mortgagor and looked solely to the builder for his compensation. For example, in one case, viz, Mitchell Gardens cooperative, the architect was a member of the construction company, a part owner of the land, and an officer of the cooperative while it was builder-sponsored. The conflict of interest between such an architect and the tenant-stockholders of the project is apparent. If the architects had been independent, serious building defects would have been avoided. FHA inspectors also O. K.'d all the projects which proved to be faulty. In some a certain amount of money was held back to cover these, in others none.

Since the insurance fee charged by FHA will be paid eventually by the tenant-shareholders, they should be able to rely upon FHA inspection for protection. The mortgagee, being insured, takes no safeguarding measures as to the adequacy of the security.

Builder-sponsors while they were in control of the cooperatives in many of the earlier cases, formed management corporations to manage the property upon completion for 3 percent of the carrying charges collected from the tenant-subscribers. These ran for a year with renewal privileges. Their kind of management proved unsatisfactory in most instances to the tenant-subscribers and will no longer be approved by FHA. Management now is usually by an experienced management firm.

We will now summarize the investigation reports on some of the section 213 projects.

These three cases have so many important factors in common that they are summarized here as one.

1. There was a substantial identity of principals in all three projects.
2. The attorney was the same for all three projects—Herman L. Weisman—who received for his services in connection with the three projects more than \$135,000. In addition, he received an 8½ percent interest in the projects.
3. Mr. Weisman employed as associate counsel on the projects, George Grace, a New York attorney and brother of Thomas Grace, who at that time was director of the New York office of the FHA. It was during that same period that Mr. Thomas Grace, the then FHA director, received \$38,000 from his brother George's New York law firm.
4. All three projects were incorporated under the New York stock law, regardless of the fact that strenuous legal objections were interposed by the closing

attorney, Robert Marshall, of the New York FHA office. This was done despite the fact that New York has a law designed especially for cooperatives. Mr. Marshall, the FHA attorney, contended the plan of Attorney Weisman was designed to keep the corporate control of the projects in the hands of the original sponsors beyond completion date, thus defeating the purpose of the cooperative law in denying stockholders any voice in the control and operation of their cooperative. Nevertheless, the head of the New York FHA office, Mr. Thomas Grace, said he had already made commitments to the sponsors and that the Weisman plan for incorporation would be acceptable.

5. In all three cases the tenant-shareholders were kept out of control of their cooperatives by the builder-sponsors until after all contracts were entered into and most of the mortgage money disbursed. This enabled the sponsors of the project to contract with themselves on the one hand as the builders and on the other hand as the bargaining agents of the cooperatives, thereby excluding the eventual occupants who were going to have to pay for the projects from bargaining with the builders concerning the cost.

6. In all three cases the builder-sponsors secured substantial cash loans on the appreciated value of the land on which the projects were built. In the case of Clearview Garden, the land cost the builders, according to their books, \$710,577.49; on the basis of an FHA valuation of \$2,160,000 on the land, the builder-sponsors borrowed \$1,919,550 on it. In the case of Beach Hills, the land cost the builders, on the basis of revenue stamps attached to the deeds, \$161,919; on the basis of an FHA valuation of \$927,000 on the land, the sponsors borrowed for their own use \$849,700 on the land. In the case of Deepdale Gardens, the land cost the builders, on the basis of revenue stamps attached to the deeds, \$551,236; on the basis of an FHA valuation of \$1,467,000 on the land, they borrowed \$1,295,109 for their own use.

7. In each of the three cases, the builder-sponsors formed a separate corporation known as Clearview Associates, Inc., which loaned money to the tenant-shareholders with which to make the downpayment, to be repaid on the basis of 25 cents per room per month.

8. In all three cases the architect who was supposed to pass on the adequacy of the construction, waived his fee from the mortgagor (the cooperative) and stated in the waiver that he would "look to the builders" for his compensation.

9. In all three projects the builder-sponsors retained title to the land, leasing to the cooperatives for 99 years. In the case of Clearview the annual ground rent was \$86,400 on land which is estimated to have cost the builder-sponsors \$710,577.49 as raw land. In the case of Deepdale the annual ground rent was \$58,680 for land which is estimated to have cost them \$551,236 as raw land. In the case of Beach Hills the annual ground rent was \$37,080 for land which is estimated to have cost them \$161,919 as raw land.

About the only difference between the three projects was in the amounts of the FHA-insured mortgages, due to differences in the size of the projects. In Clearview Garden there were 6 FHA-insured loans for a total of \$16,073,600. In the case of Beach Hills there were 3 FHA-insured loans for a total of \$7,421,100. In the case of Deepdale Gardens there were 4 FHA-insured loans for a total of \$12,723,000. The FHA-insured mortgages for these 3 projects totaled \$36,217,700.

MITCHELL GARDENS COOPERATIVE CORPORATIONS, FLUSHING, N. Y.

Three insured mortgages totaling \$9,783,500 are involved in this project. The Mitchell Garden Cooperative Corporations Nos. 1, 2, and 3, obtaining these loans were builder-sponsored. Multiple corporations were formed by three men to deal with the builder-sponsored mortgagor cooperative corporations. Each principal was president of one of the cooperatives. Each signed 1 of the 3 applications for consideration by FHA in which it was stated that the signers agreed to occupy one of the apartments when completed. None of them did.

These three principals owned the land upon which the project was built. The annual rental charged the builder-sponsored cooperatives is \$28,120. The land cost, according to revenue stamps, was \$324,090, but the option price to FHA in case of default is \$705,000.

The lump-sum contracts awarded by the builder-sponsored and directed cooperatives to the builder-owned construction corporations totaled \$10,615,395. The monthly carrying charges for occupants have been increased 10 percent in 1 project and an increase is pending on another. Off-site building construction

was awarded to the builder-owned construction companies, and the management of the project to another builder-owned company.

FHA files disclose that the builder-sponsored and directed cooperatives delayed issuing stock to the tenant-subscribers as long as possible. All the contracts were made while the builder was in control. Before the directors elected by the tenant-subscribers took charge, all the mortgage money was disbursed in the case of the first two cooperatives, and a large part in the case of the third.

One of the last acts of the builder-controlled directors of the third cooperative was to sign an agreement whereby the construction company, rather than the cooperative, was to receive any surplus deriving from amounts set up in escrow to provide for the interest on the mortgage during construction as additional compensation under its contract.

The tenants, many of whom are veterans, got rid of the builder-sponsored management when they obtained control. They have made serious complaints concerning faulty construction, including the installation of marine-type, rather than stationary-type, boilers. These vibrate and there is no movement of water to offset the vibration.

NORTHRIDGE COOPERATIVES, INC., JACKSON HEIGHTS, N. Y.

Multiple corporations which made deals among themselves, increased monthly charges, and allegations by tenant-subscribers about inadequate management and construction are involved in this cooperative project. Principals are Norman K. Winston, David Muss, and N. Spencer Martin.

Three FHA-insured mortgages totaling \$10,434,600, were obtained by the builder-sponsor cooperatives. The multiple corporations formed by the builder-sponsor entered into contracts covering various phases of the cooperatives' activities. A builder-sponsored corporation leases the land to the builder-sponsored cooperatives for an annual ground rent of \$31,560, but the option price to the FHA in case of default of the cooperatives is \$789,000. The builder-sponsored cooperatives also entered into a management contract with a builder-sponsored management company to manage the cooperatives upon completion.

FHA files show that construction contracts totaling \$10,565,324 were entered into by the builder-sponsored cooperatives with builder-sponsored construction companies. By way of assignment, these contracts went through Norman K. Winston, David Muss, and Mike Stiftung to other builder-sponsored corporations whose principals included Winston and Muss.

Stock issuance to tenant-subscribers was delayed so that they were kept out of control until all contracts had been entered into and much of the mortgage funds disbursed. Tenant-subscribers have complained that the cost of the monthly charges and the interest they would eventually have in the cooperatives were misrepresented. Monthly charges have been increased 18 percent since occupancy. Tenant-subscribers have ousted the builder-sponsored management company on grounds of inadequacy.

Complaints have also been made about faulty construction, nonconformance with architect's specifications, and delays in building. FHA inspectors approved the construction, and the architect who approved the adequacy of the construction received his sole compensation from the builders of the cooperatives.

NOSTRAND GARDENS COOPERATIVE, INC., BROOKLYN, N. Y.

Multiple corporations formed by builder-sponsors were involved in this project. The cooperative was builder-sponsored and Wesley A. Roche was president both of the company owning the land and of the construction company. The annual ground rent charged for the land is \$5,680, and the cost to the FHA in the option to purchase upon default of the project is \$142,000.

FHA files disclose that complaints were made to that agency by the tenants alleging faulty construction. The construction was approved by FHA inspectors, and the architect who approved the adequacy of construction was paid only by the builder.

Monthly charges to the tenant-subscribers were underestimated by the sponsors and a 5-percent increase in these charges has already been authorized.

The amount of the mortgage on this cooperative is \$3,165,800. The amount of the construction contract entered into between the builder-sponsored, builder-directed cooperative and the builders was \$3,182,137.60

LINCOLN COOPERATIVE PROJECTS, INC., BROOKLYN, N. Y.

Chief complaints on this cooperative concern lack of tenant-shareholder control, faulty construction, and failure of the builders to follow specifications.

FHA files indicate that the cooperative corporation was builder sponsored, and builder directed until after all contracts had been entered into and the mortgage money disbursed. Various builder-sponsored corporations were used to deal with the builder-sponsored mortgagor cooperative.

Jacob Schneider was president of and interested in the realty company which owned the land, the construction corporation, and the management company. The builder-sponsored cooperative contracted with the management company to manage the project for 3 percent of the amounts collected from tenant-shareholders. It also entered into a 99-year lease for an annual rental of \$4,160 although, according to revenue stamps, the land cost the builder-sponsor only \$15,500. The option price to the FHA in the event of default is \$104,000.

FHA files also disclosed that the tenant-shareholders were kept out of control until after the mortgage money was disbursed. One such shareholder complains that a closet which should have been in his apartment was constructed in another shareholder's apartment. Another has stated that 2 of the dwellings have 4-inch firewalls between the garage and boiler rooms, while the other has 8-inch walls; that this creates a fire hazard for the 2 units with 4-inch walls and increases their insurance costs. Specifications and construction work were approved by FHA inspectors.

A registered architect employed by the cooperative reports that his examination shows that it will cost about \$129,000 to correct construction work that was not done in accordance with plans and specifications, including credits due from the contractor for omissions and substitutions.

The insured mortgage loan for the cooperative is \$2,683,600. The lump-sum construction contract entered into by the builder-sponsored cooperative with the builder amounted to \$2,920,586. Monthly carrying charges for tenant-shareholders have been increased by 18 percent since occupancy.

KNOLLS COOPERATIVES, BRONX, N. Y.

Two projects are involved in the above developments overlooking the Hudson River.

Occupants of both projects—Knolls 1 and Knolls 2—have made many complaints about serious defects in construction. Occupants of Knolls 1 also charge that the builder-sponsors told them when they signed up for shares in the development that they would have an unobstructed view of the Hudson but that subsequently two buildings of Knolls 2 were built so as to cut off the view of many of the apartments in Knolls 1.

It is also alleged that occupants of Knolls 1 were kept out of control in the first project until after the mortgage proceeds were disbursed and that in the second project they resorted to court action to gain control just prior to the final disbursement.

An increase of 15 percent in monthly carrying charges was authorized as of June 1, 1954, for occupants of Knolls 2 and an increase of 8 or 10 percent is under consideration for occupants of Knolls 1.

The two FHA mortgages totaled \$4,457,200.

Files of FHA disclose principals of the two projects included Jack Ferman, John L. Hennessy, and Robert S. Olnick. Multiple corporations were employed. George T. Grace, brother of Thomas Grace, former director of the New York office of the FHA, received a broker's fee in connection with Knolls 2. He was also the attorney for the mortgagor bank for Knolls 1.

BRIGHAM PARK COOPERATIVE APARTMENTS, BROOKLYN, N. Y.

These projects, involving 4 separately insured mortgages, totaling \$8,759,800, bought their land from, and were built and managed by various corporations headed by the same principals.

Meyer Berfond and his wife, Ray Berfond, were the principals involved. They were the builder-sponsors. They owned the land, which they leased to the builder-sponsored (Mr. and Mrs. Berfond) mortgagors at an annual ground rent of \$16,720, although the FHA option to buy upon default calls for a payment of \$418,000. The Berfonds were also officers of the management company with which the builder-sponsor contracted to manage three of the projects.

The builder-sponsored mortgagor cooperatives entered into a lump-sum contract with the builders, a firm owned by the Berfonds, to construct the project for \$9,082,850. The contracts for projects 3 and 4 provided that any difference between the amount set up in escrow to cover interest on the mortgage during construction and the amounts actually used for that purpose would go to the builder.

The carrying charges which the shareholders have to pay to continue their occupancy in the building have been increased by 8 percent for projects 1 and 2 since occupancy.

FHA files show that the builder-sponsored management was inadequate and that the tenant-subscribers, 65 percent of whom are veterans, have removed it. Tenant-subscribers have also made complaints of faulty construction.

Mr. McKenna. The committee has already in its possession a list of the section 608 cases in New York, a very substantial list, which shows the tremendous mortgaging out in this area, as the chairman has pointed out. Perhaps New York was the worst in the country in the way of mortgaging out.

We have added in our statement here a brief reference to three cases which I think give the story rather typical of the New York situation.

In Rego Park Apartments in Elmhurst, N. Y., \$1,700,000 was withdrawn in dividends immediately upon completion of the project before there was income from rents. There was a 99-year lease for the payment of \$31,200 a year, which was an additional burden on the tenants of that project.

In the Glen Oaks Village case, \$4,600,000 was withdrawn after completion of the project and not from the income from rents.

Likewise, in the Beach Haven case there was an excess of mortgage proceeds over costs of something like \$4 million, and over \$700,000 of that was stated as withdrawn as dividends.

As investigators we wanted to find out why so much of this mortgaging out was concentrated in the New York area. We, of course, have a pretty fair idea of the reasons why it was done nationally, why there was mortgaging out nationally.

The administration of the Federal Housing Administration from the top level in the past years was such in our belief as to have promoted the mortgaging-out system. The evil that was done by mortgaging out is clear. The additional burden has to be borne by the tenants so long as the tenant is able to bear it or so long as the mortgage market is such that it permits the apartment house to get tenants who will carry that extra burden.

When the apartment market is no longer of that type, then the FHA will probably be faced with the problem that the income from these projects will not support the additional cost to which the mortgaging out has been added.

Senator Bush. Do you think that the Government will be in danger of having to take possession of some of these properties when we get into a competitive rental market?

Mr. McKenna. When we get into a competitive rental market it is fairly clear that the FHA will have to take over some of these projects. The reason that the projects are carried now is that the tenants have to pay extra rent in order to get living accommodations.

As soon as they are in position not to have to bear it, then the Government is faced with a problem.

Senator BUSH. So that the victims, if I understand you correctly, for the present are the tenants that are paying excessive rents because of these big cushions of profit which have been withdrawn after the projects were completed. If eventually we get into a competitive rental market, then the Government will be in the unfortunate position of not being in a strong competitive position so to speak?

Mr. McKENNA. That is exactly right.

We wanted to find out why so much of this mortgaging out was concentrated in the New York area. We found, I believe, the key to all mortgaging out in relationship between builders and one FHA official in Washington. That extends to the New York situation as well as nationally.

But we wanted to find out if there were any other reasons why there was more in New York than there was elsewhere. When we get into an investigation of this nature, of course the first thing an investigator looks for is conflict of interest. In this case the primary conflict of interest that we would look for would be the conflict of interest on the part of a Government employee between him and the duties that he is supposed to perform.

We believe we have found that on a national basis. We believe also there are indications of a subsidiary conflict of interest here in New York which, added to the New York situation, we could not ignore.

The director of the New York field office, in the whole field program was Mr. Thomas Grace. Mr. Thomas Grace had financial interests in the law firm of Grace & Grace. He didn't resign from the administration of FHA until August 1, 1952.

His name was on the door of the law offices until the end of 1951. His name was on the firm's stationery and on the building register. During the years 1950 and 1951 he withdrew \$19,000 each year for a total of \$38,000 from the firm's accounts.

The reports of our investigation show that the law firm of Grace & Grace—one of the partners, George T. Grace, a brother of Thomas Grace, the State director, was connected in some capacity, as attorney or otherwise, in 64 large scale rental housing projects involving over \$84 million. This was during the time that Mr. Thomas Grace was the director of the FHA field office in the State of New York.

It therefore appears clear that Mr. Thomas Grace benefited financially from the participation of his own law office in section 608 and section 213 projects that were cleared by his office.

There are other means by which the Grace family benefited from these large scale rental housing projects. Mr. George T. Grace was treasurer of the Coinmach Industries, Corp., which entered into a contract with at least 19 section 213 cooperative corporations. This company serviced the coin-operated automatic washing and drying machines.

Some of these contracts attempted to bind the tenants of the project for some years after the project was completed.

In talking of the section 213 program, it is pertinent particularly to New York because most of the section 213 projects are in the New York area, and New York more than any other section of the country has taken advantage of this provision of the housing law. It is our feeling—and I think it is factual based on the investigation—that the

people who live in these cooperative apartments have suffered a burden because of the way that program was administered in New York.

We believe it is clear that the conflict of interest between the FHA officials and the work they were supposed to perform has contributed to that burden.

The section 213 program contemplated the building of apartment houses under a cooperative arrangement. It was intended, I believe, by this committee and by the Congress in putting in this section to allow people throughout the country, of modest means, to get housing at a lower expense than they would have had to pay except for the existence of this section in certain communities.

However, as the section was administered by FHA it was not in its initial stages a cooperative program. Initially it was a builder-sponsored program. The builders would conceive the idea of the program, they would enter into contracts with a corporation that they established themselves. Those contracts would bind the corporation which they established, and that corporation eventually would be the cooperative corporation which provided the housing.

So before the cooperators, the people who were going to live in these apartment houses took possession, before they came into control of their own corporation, that corporation was already bound by firm contracts which were negotiated by the builder with himself.

I think there is a second type of conflict of interest which is particularly prevalent in the New York area. In a section 213 cooperative, to recapitulate, the builder would establish his building corporation. He then would establish the corporation that would eventually become the cooperative corporation. Then, wearing two hats, he would enter into contracts between the two corporations, which of course would bind the cooperative corporation.

Then when the tenants came in, they would be already obligated to pay back on the basis of the building contract, construction contract which the builder had entered into for himself.

In some of these cases—and they are inscribed in the attachments to this statement here, the builder attempted to postpone the date at which the cooperators, or the people who would eventually live in these apartments, got control of their own corporation.

He would attempt to postpone it, if he could, until all the money under the mortgages had been disbursed and until the construction was completed and until that corporation had accepted the building which he was constructing.

In other words, there wasn't anybody there with a financial interest adverse to the builder. His interest, quite naturally and properly perhaps, was to make a profit, but there wasn't anybody representing the people who were going to live in the apartment.

Senator BUSH. Is it true that the builder or promoter of this project frequently went on and continued as manager of the proposition on behalf of the eventual owners and charged fees for his services in managing the property, the same person?

Mr. McKENNA. That is true, but I believe in every case where that was done the tenants ultimately ousted that management, and, because that sort of builder or manager of the project was so unsatisfactory, it is now finally prohibited by FHA regulations. But the Senator's statement is correct: they did try that in many cases.

The point is, then, why was this permitted by the FHA? More of an obligation is placed on their shoulders to protect the people who are ultimately going to inhabit these apartment houses. It was recognized that there was a necessity for a great deal of guidance on the part of the Government if you were going to have a cooperative housing program.

Obviously, an average person of modest means who was going to take advantage of this program wouldn't have the ingenuity, the skill, and the training to protect his own interests in the promotion of it. So the Congress, I believe in very clear language in section 213, put a burden on FHA to guide and help the cooperator.

Instead of doing that it is clear from the records that FHA made it possible and promoted the biggest possible profit for the builder, and it took no measures to protect against this obvious conflict of interest in which the builder represented not only himself but the ultimate occupant of the apartment house.

Another instance of that, which I think has contributed a great deal to the situation, is that the architects of these projects didn't work for the cooperative corporation in many instances. They signed a waiver of their fee from the cooperative corporation, looking to the building corporation to get their fees.

That meant, of course, that the architect was obligated not to the fellow who was going to live in the apartment, not to the fellow who was eventually going to buy the apartment, but the man who was building the apartment, so the fellow who should have been supervised was the boss of the supervisor.

FHA took no steps to prevent that. They were aware of it and seemed to promote that method of operation.

In the attachments we have set forth some of the land-purchase situations in connection with cooperatives. I think that is particularly pertinent when we are studying the way FHA has administered the cooperative program up to now. On page 11 of the statement, the sixth paragraph, the story is given with respect to the land-acquisition situation of these cooperative corporations.

In the case of Clearview Garden, the land cost to the builders was \$710,000. FHA valued it at \$2,160,000.

Senator BUSH. Was that within a short time after its acquisition?

Mr. MCKENNA. My recollection is that all of these cases were quite promptly after the acquisition.

The builders were immediately able to borrow \$1,919,000 on it.

I believe in most of these cases as soon as construction reached the stage of 55 percent, the builders were able to borrow on the land they had acquired only a short time before at 2 or 3 times the cost of that land to them.

That of course was based on the fact that FHA had approved this higher valuation. So that the annual income for the 99 years was higher because of the FHA's valuation. The only explanation we could find of that is that the Federal Housing Administration appraised the raw land before construction on the basis of what it would be worth after construction was completed. We think that is clearly the situation.

That means, in effect, that the fellow who ultimately occupies the apartment house, the cooperator, is paying an additional amount for

the land, assuming an additional amount for the land because of his own money that has been used to build the cooperative project itself.

Senator BUSH. So that the owners, the promoters who bought the land in the first instance made a 99-year lease on the project at very largely enhanced values, is that correct?

Mr. MCKENNA. That is correct.

Senator BUSH. What were those figures on Clearview? I mean the cost.

Mr. MCKENNA. It cost them \$710,000. FHA valued it at \$2,160,000.

Senator BUSH. That is three times the original cost. So the then owners were in a position to receive for 99 years a rental based on the valuation of \$2,100,000 instead of a cost of \$710,000; is that correct?

Mr. MCKENNA. Yes, sir; that is true.

Senator BUSH. There is a difference of \$1,400,000 writeup which they were going to get for a period of 99 years.

Is it true that their rental is in a very safeguarded position because it is a prior charge on the project ahead of the building itself?

Mr. MCKENNA. That is true, sir; and it is demonstrated conclusively by the fact that as soon as the building was 55 percent completed, then these sponsor-builders borrowed on the property, and in the case of Clearview they borrowed \$1,919,000 on a property which they purchased for \$710,000.

Senator BUSH. Go right ahead.

Mr. MCKENNA. That of course is true also in the section 608 cases, and it obligates FHA to pay a tremendously inflated price to get the fee on which the buildings were built.

Now in connection with this land in the Clearview Garden case—which is fairly typical, I believe—costing \$710,000, when FHA placed a valuation of \$2,100,000 on it, FHA also obligated itself to pay that much money to the sponsor, to the holders, if the project defaulted and FHA had to take it over. That is, it obligated itself if it wanted to get the fee.

Now there is another angle to that which should be emphasized. There has been a great deal of complaint from the cooperators that there has not been adequate inspection of these projects, that they didn't get what they paid for.

I think it should be pointed out that when the burden of insurance is placed on the cooperators that part of that burden could reasonably be said to be adequate inspection which FHA agrees to give. FHA in these cases, it seems fairly clear from the inspection we have conducted in connection with the investigation, did not adequately inspect them.

Senator BUSH. Was that because they didn't have an adequate number of inspectors? To what do you attribute that deficit in their responsibility?

Mr. MCKENNA. Because they didn't have either adequate inspectors or competent inspectors. It could have been because of the numerous gifts which their inspectors got from the builders. But we must point out this: that FHA did have it in its power to require that architects be independent, and if the architects were independent there would have been a substantial protection against exactly what happened. Instead of this FHA permitted the architects to be the hirelings of the builders.

Generally I think that gives the story on the section 213 situation which is most used in New York, that is, more used in New York than in any other community.

Senator BUSH. The present occupants are now finding fissures in buildings, so to speak, and finding that buildings are falling into disrepair or they are not getting adequate service and that sort of thing? Is that fair to say or not?

Mr. MCKENNA. It is true, sir. They have had a great many complaints about construction. Our investigation has not disproved those complaints and, on the contrary, has tended to prove that the construction was not up to specifications.

Senator BUSH. Could you give any particular example of the type of inadequacy, if we can call it that, which exists? What sort of irregularities were discovered by the tenants when they got in there or after they had been in there for a year or two?

Mr. MCKENNA. I recall one case of a cooperative here in New York where one of the walls fell down. I believe on page 8 there is some comment on that, that there have been serious defects in construction. Besides walls falling down, there were other items of a comparably serious nature which the investigation sets forth.

I think that, generally, is a summary of the statement that I have filed, Senator. If you have questions or if any other information is desired, I shall be glad to give it.

Senator BUSH. To go back to your opening remarks, we had some conversation about the Government's position in this eventually. The thought was expressed that the Government might not be in a competitive position if it had to take possession of some of these properties. Why couldn't the Government reduce rents and keep the property rolling on a reduced rental basis? Why wouldn't that work?

Mr. MCKENNA. The mortgages have to be paid off from the rents, and the mortgages include not only the cost of construction but these windfalls. So that if the rents weren't high enough, the rents wouldn't be able to take care of the mortgages.

Senator BUSH. Wouldn't provide amortization?

Mr. MCKENNA. They would not, sir.

Senator BUSH. So they would be in a position of deficit, so to speak, would be in default?

Mr. MCKENNA. Yes; that is correct.

Senator BUSH. Do you plan to do anything, does the FHA plan to do anything about the so-called windfall profits that resulted from this mortgaging-out process where a man got a mortgage of 10 or 20 or 30 percent in excess of the cost? What is the FHA planning to do about that?

Mr. MCKENNA. It is my expectancy that the FHA will undertake to correct that situation in those cases where it is in the public interest to do so.

Senator BUSH. When you came into this picture some months ago did you get in contact with Clyde Powell, who was in charge of the rental housing business for the FHA? Did you get in touch with him in connection with your investigation?

Mr. MCKENNA. Within a day or two after the investigation started, Administrator Cole called Mr. Powell to his office. I was there. Mr. Cole then outlined to Mr. Powell in some detail the charges which

had up to that point been made against Mr. Powell. Of course at that time we had only a tiny fraction of the information that we have now.

Mr. Cole then said that I was there in the room, that I was there to talk to Mr. Powell, that we could go into detail on these charges to get his side of the story. Mr. Powell answered that he would have to see his lawyer.

Senator BUSH. Did you find any connection between Mr. Powell and these mortgaging-out cases, so to speak, where the windfall profits occurred?

Mr. MCKENNA. In these cases where the windfall profits were greatest, there was a connection between Mr. Powell and the sponsors, at least to the extent that the appointment books of Mr. Powell show frequent visits from these people.

Over and beyond that we now have specific information in some cases and a great deal of cumulative information which shows the connection between Mr. Powell and the big mortgaging-out cases.

Senator BUSH. I might recall here for the record that I remember the committee called Mr. Powell to testify in Washington, and he refused to testify on the grounds that it might incriminate him. He took shelter behind his privilege of the fifth amendment.

Mr. MCKENNA. I think it is fair to say, Senator, that Clyde Powell is keyed to the mortgaging out in section 608 cases.

Senator BUSH. He is the keyman?

Mr. MCKENNA. Yes; the keyman in the situation.

Senator BUSH. I have no further questions of the witness.

Have you any questions?

Mr. SIMON. No.

Senator BUSH. Have you anything in addition you wish to add?

Mr. MCKENNA. I believe that gives the story.

Senator BUSH. The committee thanks you for your appearance here this morning.

The next witness is Mr. Warren G. Schaller of Pelham Manor, N. Y.

Will Mr. Schaller come forward, please.

Will you raise your right hand? Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF WARREN G. SCHALLER, PELHAM MANOR, N. Y.

Mr. SCHALLER. I do.

Senator BUSH. Thank you. Give your correct name and address to the clerk, please.

Mr. SCHALLER. Warren G. Schaller, 979 Palmdale Avenue, Pelham Manor, N. Y.

Senator BUSH. Mr. Simon, will you question the witness.

Mr. SIMON. Prior to 1949, Mr. Schaller, what was your building experience?

Mr. SCHALLER. I have been in the building game since after I came out of World War I.

Mr. SIMON. In 1949 did you try to build a section 608 project in New York?

Mr. SCHALLER. About 1948 or 1949.

Mr. SIMON. On May 19, 1949, did you file an application for mortgage insurance under section 608 of the Housing Act with the Federal Housing Administration?

Mr. SCHALLER. I think I did; yes.

Mr. SIMON. Do you know what happened to that application?

Mr. SCHALLER. Well, it was in the process of being approved when I had to change the property because of the zoning change in my location, to another area. Then I had to make a new application for the additional property.

Mr. SIMON. In the 6 months' period between May 1949 and November 1949, how many times did you go into the FHA offices in connection with this application?

Mr. SCHALLER. Oh, I have been in there many times. I would say a dozen times.

Mr. SIMON. A dozen times?

Mr. SCHALLER. Yes.

Mr. SIMON. In those dozen trips were you able to move your application to first base?

Mr. SCHALLER. Well, I was concerned about whether my application would lose its place in the line since the zoning was changed.

Mr. SIMON. What did the FHA people tell you when you talked to them about that?

Mr. SCHALLER. Well, I was not very successful in getting any definite answer from them as to whether it would remain in the present order or whether a new application would have to be made for the new land.

Mr. SIMON. What did they tell you?

Mr. SCHALLER. I just didn't get anywhere with it. I just didn't know what to do, and then——

Mr. SIMON. How many people did you see?

Mr. SCHALLER. I spoke to maybe 3 or 4. I don't recall.

Mr. SIMON. Then in November what did you do?

Mr. SCHALLER. In November of 1949?

Mr. SIMON. Yes.

Mr. SCHALLER. Well, I was very much concerned about whether or not I was going to be able to build on this new location, and some friends of mine spoke to some people in the building game and Mr. Grace was recommended to me as a man that could probably——

Mr. SIMON. Which Mr. Grace was that?

Mr. SCHALLER. George T.

Mr. SIMON. Did you go to see Mr. Grace in November 1949?

Mr. SCHALLER. I did.

Mr. SIMON. And did you file an amended application?

Mr. SCHALLER. Yes, sir.

Mr. SIMON. Did he file it for you?

Mr. SCHALLER. I don't recall. I presume he did. I don't recall.

Mr. SIMON. And then did you get action?

Mr. SCHALLER. Well, he did a good job, I thought. It went along all right.

Mr. SIMON. In February 1950 did FHA approve the application?

Mr. SCHALLER. Yes, sir.

Mr. SIMON. You had spent 6 months on your own without getting it approved; is that right?

Mr. SCHALLER. I don't recall the time.

Mr. SIMON. Well, I show you your original application. It is dated May 19, 1949. I ask you if that is the time you filed it?

Mr. SCHALLER. Yes; this is the original one; that is right.

Mr. SIMON. And here is your amended application, dated November 23, 1949. I ask you if that was approximately the time it was filed?

Mr. SCHALLER. That is correct.

Mr. SIMON. The project was approved in February 1950, wasn't it?

Mr. SCHILLER. I think it was. I don't recall.

Mr. SIMON. How many people told you that the man to see was Mr. Grace?

Mr. SCHALLER. I would say at least two.

Mr. SIMON. Was it common knowledge in New York at that time, Mr. Schaller, that in order to get a section 608 approved, you should go to Mr. Grace?

Mr. SCHALLER. Well, the information that I gathered was that he was very familiar with this method of construction and to those like myself who didn't know much about it, it would be helpful.

Mr. SIMON. I have a letter dated June 21, 1950, addressed to you and William Lippman, and Warren Gardens, Inc. This project was Warren Gardens, Inc., wasn't it?

Mr. SCHALLER. That is correct.

Mr. SIMON. The letter starts out, "Re: FHA project 01-42271, Warren Gardens." The letter purports to be signed by George Grace and relates to fees on this project.

I ask you if that letter does relate to the fees on the project you have been talking about?

Mr. SCHALLER. Yes, sir; that does.

Mr. SIMON. Mr. Schaller, the top of the document says "The law office of Grace & Grace"; is that right?

Mr. SCHALLER. Yes, sir.

Mr. SIMON. And over on the lefthand side it lists the partners in the law firm?

Mr. SCHALLER. It does.

Mr. SIMON. Will you read those partners to the committee, please?

Mr. SCHALLER. "Thomas G. Grace, William J. Grace, Patrick J. Grace, Jr., and George T. Grace."

Mr. SIMON. Do you know who Thomas Grace was?

Mr. SCHALLER. No; I understood later he was the head of the FHA.

Mr. SIMON. Did you know at that time that he was the FHA State director?

Mr. SCHALLER. I did.

Mr. SIMON. Did you know that the law firm that was representing you in this FHA matter included the State director?

Mr. SCHALLER. I did not.

Mr. SIMON. You didn't know it?

Mr. SCHALLER. I did not.

Mr. SIMON. Although the letter shows that on it?

Mr. SCHALLER. I didn't have any occasion to see the letters until later on. You asked me in the beginning if I knew that.

Mr. SIMON. Yes.

Mr. SCHALLER. I did not. Later on I learned that he was.

The CHAIRMAN. Did you know that Mr. George Grace and the other Graces there were the brothers of the FHA director?

Mr. SCHALLER. Originally, I did not.

Mr. SIMON. You did not originally know that they were his brothers?

Mr. SCHALLER. No.

Mr. SIMON. In other words, you were told that he was the man to see, but you didn't know why?

Mr. SCHALLER. He was experienced in this type of construction—that I could do better with him than with an ordinary lawyer.

The CHAIRMAN. I have no further questions.

Have you any questions, Mr. Kenney?

Mr. KENNEY. Yes, I do, sir.

Did you have any reason to believe at that time that it was due to your employing the Graces that you were able to obtain the commitment?

Mr. SCHALLER. Well, I think, Mr. Kenney, that I would have obtained the commitment anyway on my own, I really do. What I was concerned with was I couldn't get information as to whether or not I would remain in the same position if I went to another firm.

Mr. KENNEY. What would be the difference in the position that might result?

Mr. SCHALLER. It would mean that I would have to start all over again. It would probably be months or a year before I would get back to where I was.

Senator BUSH. Your application would go to the foot of the list?

Mr. SCHALLER. Yes, and I was much concerned about that.

I had no intention of going to Mr. Grace in the beginning, but I was very much concerned that I didn't know what would happen to my application since the zoning was changed, and I had to go to a new location. I didn't want to go back to the bottom of the list. I didn't think it would be fair.

Senator BUSH. You were told by others that by going to this firm of Grace & Grace, they would expedite it?

Mr. SCHALLER. That he was experienced in this. I didn't know anything about that.

Mr. SIMON. It turned out to be accurate information?

Mr. SCHALLER. I think Mr. Grace did a commendable job.

Senator BUSH. No further questions. Thank you very much for coming in, Mr. Schaller. We appreciate your testimony.

Will the next witness come forward? Mr. George Grace, of the firm of Grace & Grace.

Mr. Grace, will you stand, please, and raise your right hand? Do you solemnly swear that the testimony which you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF GEORGE GRACE, NEW YORK, N. Y., ACCOMPANIED
BY WILLIAM W. KLEINMAN, COUNSEL**

Mr. GEORGE GRACE. I do.

Mr. SIMON. Mr. Grace, will you give the committee your full name and address, please?

Mr. KLEINMAN. Mr. Grace objects to being televised.

Senator BUSH. Mr. Grace objects to the television. Is this a movie camera or television?

Both? Well then, under those circumstances you will have to disconnect for this witness.

Do you object to these photographers?

Mr. GRACE. No, sir.

Mr. SIMON. Mr. Grace, would you give the reporter your full name and address, please?

Mr. GRACE. George T. Grace, 110 East 42d Street.

Mr. SIMON. What is your occupation?

Mr. GRACE. I am an attorney.

Mr. SIMON. Are you a partner in the firm of Grace & Grace?

Mr. GRACE. Yes, sir.

Mr. SIMON. How many offices does the firm of Grace & Grace have?

Mr. GRACE. They don't have any offices, they have partners.

Mr. SIMON. How many offices do they have?

Mr. GRACE. Oh, I beg your pardon; two.

Mr. SIMON. Where are they?

Mr. GRACE. 26 Court Street and 110 East 42d Street.

Mr. SIMON. Court Street is in Brooklyn?

Mr. GRACE. That is right, sir.

Mr. SIMON. Who are the partners in the firm of Grace & Grace?

Mr. GRACE. William J. Grace and George T. Grace. My brother Thomas has been an inactive partner.

Mr. SIMON. Who were the partners in the firm during the period of 1949 through 1953?

Mr. GRACE. William J. Grace, Patrick J. Grace, and George T. Grace.

Mr. SIMON. Was Thomas Grace a partner in the firm in those years?

Mr. GRACE. I would say an inactive partner, Mr. Simon.

Mr. SIMON. What do you mean by that?

Mr. GRACE. He didn't participate in the work of the firm.

Mr. SIMON. Was his name on the door?

Mr. GRACE. I don't think it was ever on the door in New York, Mr. Simon. It was on the door in Brooklyn.

Mr. SIMON. Was his name on the stationery?

Mr. GRACE. To my knowledge it was always on the stationery in Brooklyn until 1951 some time, when the FHA said we should take it off. I don't recall it ever being on the stationery in New York.

Mr. SIMON. I show you here a letter which appears to bear your signature, dated June 21, 1950, of your New York office, and ask you if that doesn't bear the name?

Mr. GRACE. I heard the testimony from Mr. Schaller. I didn't think it was on there. There might have been some stationery with it on it.

Mr. SIMON. Is that a true photostatic copy of your stationery, the New York office?

Mr. GRACE. Yes, sir.

Mr. SIMON. It bears your signature?

Mr. GRACE. Yes, sir.

Mr. SIMON. It does show Thomas Grace among the partners?

Mr. GRACE. Yes, sir.

Mr. SIMON. In fact, it lists him as the top partner; doesn't it?

Mr. GRACE. That is correct, sir.

Senator BUSH. Mr. Grace, at that time during those years that Mr. Simon mentioned, did Mr. Grace, your brother; Thomas Grace, have a financial interest in the firm?

Mr. GRACE. You mean as a partner, Senator?

Senator BUSH. Yes.

Mr. GRACE. He had always been a partner in the firm. However, he only took drawings for the years 1949 and 1950.

Senator BUSH. He drew income—

Mr. GRACE. For those 2 years.

Senator BUSH. From the firm?

Mr. GRACE. Correct, sir.

Mr. SIMON. Mr. Grace, isn't it a fact that your brother Thomas, in those years, drew \$10,421.57 from the Brooklyn office?

Mr. GRACE. I am sorry, I didn't get the amount, Mr. Simon.

Mr. SIMON. Isn't it a fact that during those years, during the years 1946 through 1951 your brother Tom drew \$10,421.57 from the Brooklyn office?

Mr. GRACE. I think that is reasonably correct. I assume it is correct.

Mr. SIMON. Isn't it a fact that in the years 1950 and 1951 he personally drew \$28,337 from the New York office?

Mr. GRACE. If those are your figures, I will assume the accuracy. I didn't take them off. I know you have taken them off the books, and I assume they are correct.

Mr. SIMON. Did he get \$5,000 on June 14, 1951?

Mr. GRACE. I don't have the books here, Mr. Simon. I couldn't answer that for you.

Mr. SIMON. There is an item on your books of November 30, 1950, of \$4,178.50 to Riker Subdivision, Inc.

Mr. GRACE. Yes.

Mr. SIMON. Was that for the account of your brother, Thomas?

Mr. GRACE. I believe it was.

Mr. SIMON. Isn't it a fact that out of your personal bank account in the year 1949 you paid your brother Thomas \$4,402.07?

Mr. GRACE. I drew checks for that amount; yes, sir.

Mr. SIMON. The total of those figures is approximately \$48,500 that your brother Thomas received from either the law firm or you personally during this period of time; is that right?

Mr. GRACE. I believe—if those are the figures you have there; yes, sir.

Mr. SIMON. Is there any doubt in your mind about their being right?

Mr. GRACE. No; I assume the accuracy of them, Mr. Simon. You took them off.

Mr. SIMON. You have—at least I gave you a little bit ago—a type-written list of approximately 80 FHA projects which the files of FHA show you were the attorney for the applicant. Is that list accurate, Mr. Grace?

Mr. GRACE. Reasonably so; yes, Mr. Simon.

Mr. SIMON. So that during this period of time you were the attorney for the applicant in roughly 80 FHA cases?

Mr. GRACE. An awful lot of those cases, Mr. Simon, are cases pending and presently in the files after 1952.

Mr. SIMON. That is right. But the big bulk of them were cases that were filed in 1949, 1950, and 1951?

Mr. GRACE. Yes; 1947, 1948, 1949; yes.

Mr. SIMON. I understand you spent most of your time in the New York office; is that right?

Mr. GRACE. That is right, Mr. Simon.

Mr. SIMON. What percentage of the fees received by the New York office came from FHA business?

Mr. GRACE. I would say somewhere in the neighborhood of about 65 percent.

Mr. SIMON. Isn't it higher than that, Mr. Grace?

Mr. GRACE. I didn't total them up, Mr. Simon. I never had a chance to. If you have the figure there, I will accept the accuracy of the figure you have.

Mr. SIMON. We have not totaled them, but in going through your books it would seem to me it would be closer to 85 or 90 percent than 65.

Mr. GRACE. I don't think so, Mr. Simon. I took off some rough figures myself. I think it is somewhere in the neighborhood of 65 percent.

Mr. SIMON. Of the \$45,000 that your brother received from the firm, \$35,000 of it came from the New York office; is that right?

Mr. GRACE. Either from the New York office or myself, you mean?

Mr. SIMON. And your income, of course, came from the New York office?

Mr. GRACE. Yes.

Mr. SIMON. And 65 percent of the business of the New York office you would say was FHA business?

Mr. GRACE. That is right.

Mr. SIMON. During that period of time isn't it true that the New York office also sent substantial sums of money over to the Brooklyn office?

Mr. GRACE. Correct, sir.

Mr. SIMON. So that in a sense the fees that your brother got from the Brooklyn office may well have been made possible because of the moneys they received out of your New York practice?

Mr. GRACE. I don't know about that.

Mr. SIMON. On this same sheet that I have given you are listed the fees that you received in these section 608 projects. There is a substantial number of them where you have not yet been paid.

Mr. GRACE. That is right, sir.

Mr. SIMON. But on those that you have been paid the fees total \$291,000; is that correct?

Mr. GRACE. I think that is the figure I saw.

Mr. SIMON. What would you estimate the fees due you on these older projects that still haven't been paid?

Mr. GRACE. You are speaking about cases that have been filed since 1952?

Mr. SIMON. I would be willing to limit it to cases filed prior to December 31, 1952. One of them on there we know about is Knolls Cooperative, and I believe you have got a \$33,000 fee coming to you on that alone?

Mr. GRACE. Apparently it is going to wind up in a lawsuit.

Mr. SIMON. Isn't there a \$33,000 fee due you in that one?

Mr. GRACE. That is correct, sir.

Mr. SIMON. What would you estimate to be the fees due you on applications filed prior to December 31, 1952?

Mr. GRACE. Just give me a minute and let me check this list, Mr. Simon, and I think I can answer it for you.

Mr. SIMON. Yes, sir.

Mr. GRACE. I don't think any of these section 208's, Mr. Simon, were filed—

Mr. SIMON. Well, including the Knolls, would \$100,000 be a rough figure?

Mr. GRACE. Oh, no, too high.

Mr. SIMON. Too high?

Mr. GRACE. Oh, yes.

Mr. SIMON. \$50,000?

Mr. GRACE. \$50,000 would be a closer figure, Mr. Simon.

Mr. SIMON. Knolls alone is \$33,000.

Mr. GRACE. But that happens to be a big situation. Most of these others are small.

Mr. SIMON. In the Rock Wave Crest, or Rockaway Crest, whichever name you want to call it, isn't it a fact that well after the building was under way and almost completed, you were permitted to buy some stock in the building for \$15,000?

Mr. GRACE. I paid for the stock at that time. I made my agreement to buy it far before that, Mr. Simon.

Mr. SIMON. That was a section 608 project, wasn't it?

Mr. GRACE. Right, sir.

Mr. SIMON. After you bought the stock for \$15,000 the company bought it back from you for \$52,500; isn't that right?

Mr. GRACE. Right, sir.

Mr. SIMON. You were also the attorney for that corporation in the FHA application?

Mr. GRACE. That is right.

Mr. SIMON. So that in addition to the \$291,000 in fees you received, you received \$37,500 profit shall we say, on that Rock Wave Crest?

Mr. GRACE. That is right, Mr. Simon.

Mr. SIMON. In addition, Mr. Grace, you are a partner or a stockholder, or whatever you would call it, in the firm of Lowell, Smith & Evers?

Mr. GRACE. That is right, Mr. Simon.

Mr. SIMON. What is the business of Lowell, Smith & Evers?

Mr. GRACE. Mortgage correspondents.

Mr. SIMON. Is it true that all of their business is with people who do business with FHA?

Mr. GRACE. I don't think all of it. Some of the banks that they represent don't buy FHA loans, but predominantly they do.

Mr. SIMON. Predominantly their business is with people dealing with FHA?

Mr. GRACE. That is right.

Senator BUSH. They are mortgage brokers?

Mr. GRACE. They are mortgage correspondents. They are local representatives, Senator, for up-State savings banks which don't service their own mortgages locally.

Senator BUSH. Oh, yes.

Mr. GRACE. They represent some twenty-odd banks throughout the city and State.

Mr. SIMON. What do they pay you a year?

Mr. GRACE. On an average of somewhere in the neighborhood of \$10,000 or \$11,000.

Mr. SIMON. Now, at the executive session, Mr. Grace, you testified that they paid you an average of \$9,000.

Mr. GRACE. That is right.

Mr. SIMON. You now say \$10,000 or \$11,000?

Mr. GRACE. Well, after I testified down there, Mr. Simon, I was testifying without any notes. I went back to check the records.

Mr. SIMON. Isn't it a fact that they paid you \$15,000 a year?

Mr. GRACE. Some years. Other years \$5,000. Right now I am getting \$5,000.

Mr. SIMON. Let's take the year 1949. Didn't they pay you \$15,500?

Mr. GRACE. That is right, sir.

Mr. SIMON. And in the year 1950 didn't they pay you \$12,500?

Mr. GRACE. I believe that is correct.

Mr. SIMON. And in the year 1951, \$14,000?

Mr. GRACE. I believe that is right.

Mr. SIMON. And in the year 1952, \$15,400; is that right?

Mr. GRACE. That is right.

Mr. SIMON. And in the year 1953, \$15,000?

Mr. GRACE. Yes.

Mr. SIMON. So that during the 5-year period of 1949 to 1953 they paid you \$72,400?

Mr. GRACE. Right. You asked me in the executive session, Mr. Simon, for the period from 1946 through, and I struck an average and I think the average is about \$10,000.

Mr. SIMON. But during the 4-year period when section 608 was in its heyday we find the average is \$15,000; is that right?

Mr. GRACE. That is right.

Mr. SIMON. Those 3 items alone, the Burns stock, the Lowell, Smith & Evers fees, and the fees that you received directly, total roughly \$400,000; is that right?

Mr. GRACE. That is right.

Mr. SIMON. You testified in executive session that for the \$15,000 a year that Lowell, Smith & Evers paid you, that you spent about one-half an hour or an hour a day at their office; is that right?

Mr. GRACE. That is right, sir.

Mr. SIMON. What would you do in a half hour or an hour a day for that company that would be worth \$15,000 a year to them?

Mr. GRACE. I was successful in getting mortgages that they could place with their banks.

Mr. SIMON. Is there a firm called Lowell Associates?

Mr. GRACE. Yes, sir.

Mr. SIMON. What is their business?

Mr. GRACE. It is one of Mr. Conrad Lowell's corporations. It is one of his subsidiary companies.

Mr. SIMON. Is that the same Conrad Lowell of Lowell, Smith & Evers?

Mr. GRACE. That is right, sir.

Mr. SIMON. What is the business of Lowell Associates?

Mr. GRACE. I think—I will be honest, Mr. Simon, I don't know. It is one of their subsidiary companies.

Mr. SIMON. Do they deal in FHA matters?

Mr. GRACE. I don't think they do now, sir. I don't think they ever did, frankly. I think it is a company now out in California.

Mr. SIMON. What is their relationship to this Lowell, Smith & Evers firm?

Mr. GRACE. It is owned by Lowell, Smith & Evers.

Mr. SIMON. It is owned by Lowell, Smith & Evers?

Mr. GRACE. Yes.

Mr. SIMON. A subsidiary?

Mr. GRACE. Yes.

Mr. SIMON. Where are their offices?

Mr. GRACE. 50 East 42d Street.

Mr. SIMON. Is their business in New York?

Mr. GRACE. Yes; they have a business in New York and an office in San Francisco and Los Angeles.

Mr. SIMON. During the period of years that we have been talking about, was Mrs. Thomas Grace on the payroll of Lowell Associates?

Mr. GRACE. She was, sir.

Mr. SIMON. What work did she do for them?

Mr. GRACE. I don't know.

Mr. SIMON. Did she go down to the office and spend a full day there each day?

Mr. GRACE. I don't think so; no.

Mr. SIMON. You don't think so?

Mr. GRACE. No.

Mr. SIMON. Was that just a means of giving some money to the Thomas Grace family?

Mr. GRACE. I don't know, Mr. Simon.

Mr. SIMON. But you don't think she did any work for the salary she got?

Mr. GRACE. She didn't go up every day; no, sir.

Mr. SIMON. If I understand your testimony correctly, Mr. Grace, you had a partnership, a law firm, in which your brother Thomas was perhaps an inactive partner, but his name appeared on the stationery and on the door of the Brooklyn office, and during this 5-year period you received approximately \$400,000 in FHA matters or FHA related matters of which \$45,000 went to your brother Thomas.

Don't you regard that as a violation of section 281 of the Criminal Code?

Mr. GRACE. I don't know what section 281 of the Criminal Code is, Mr. Simon.

Mr. SIMON. Section 281 of the Criminal Code says that Government employees may not appear before Government agencies or share fees for appearance before Government agencies, or be paid for work before Government agencies.

Wasn't this money that your brother Thomas received, this \$45,000, a part of the \$400,000 that you received in FHA matters?

Mr. GRACE. I don't know what the question was. If the original question was a violation of section 281, my answer would be "No."

Mr. SIMON. Why?

Mr. GRACE. I don't know why.

Mr. SIMON. My next question is why isn't that a violation of section 281 of the Criminal Code?

Mr. GRACE. I don't know what the criminal law is, Mr. Simon. I can't answer the question.

Mr. SIMON. Do you know whether the FHA made an investigation of your brother Thomas' conflict of interest activities in 1948?

Mr. GRACE. No, sir.

Mr. SIMON. Did you ever know before I asked the question that the FHA had made that investigation in 1948?

Mr. GRACE. Only what I read in the papers.

Mr. SIMON. You didn't know it in 1948?

Mr. GRACE. No, sir.

Mr. SIMON. In the Knolls Cooperative No. 2 project, which I believe you are familiar with, we are advised that the broker in that case was a man named Hennessy, and the lawyer in the case was a man named Olnick, and that you did not work in the matter until the closing, and at the closing Mr. Hennessy wrote a letter to the bank saying that the fee should be paid to him instead of to you.

Do you know anything about that?

Mr. GRACE. I do. I processed that case through the FHA and all the negotiations. The Drydock Savings Bank had agreed to make a mortgage on the first section. They didn't make it. We knew they were ready to make the mortgage on the second section. Mr. Hennessy was selling the apartments up there and was thoroughly familiar with all the sections. As a result, he showed the people from the Drydock Savings Bank around. There was no statement that I was the broker at the last minute. The letter from the savings bank specifically states that I was the broker in the transaction. The savings bank insisted that I sign the commitment letter and the only reason that they had any dealings with Hennessy was that he was the person that showed them around.

They got a release from him so that he couldn't sue them in the event there was a claim for the commission.

Mr. SIMON. If Hennessy had done the broker work and you had processed the application at FHA, why should Hennessy give up his brokerage fee to you?

Mr. GRACE. Because he was the president of the cooperative or vice president of the cooperative, acting in their behalf, Mr. Simon. He was not participating as a broker in the situation.

Mr. SIMON. Why didn't they just pay you the fee for processing the application in FHA instead of having Hennessy assign his brokerage fee to you?

Mr. GRACE. He didn't assign his brokerage fee to me.

Mr. SIMON. Didn't he write the Drydock Savings Bank he waived his brokerage fee, saying they should pay it to you?

Mr. GRACE. To my knowledge, he said that he was not the broker in the transaction. I know nothing about the fact that he said it should be payable to me.

Mr. SIMON. In the Warren Gardens matter in respect to which you have the photostat letter in front of you, what was the fee for processing that application?

Mr. GRACE. \$7,800 and some odd.

Mr. SIMON. Did you receive that fee?

Mr. GRACE. No. The fee was paid to Mr. Masciarelli.

Mr. SIMON. Why was the fee paid to him?

Mr. GRACE. Because his name was down as the broker with the bank that made the loan.

Mr. SIMON. Did Mr. Schaller ever hire him?

Mr. GRACE. He was a friend of Mr. Schaller's. Mr. Schaller came to me, if I remember correctly, from Mr. Masciarelli.

Mr. SIMON. Who is Mr. Masciarelli?

Mr. GRACE. He is an attorney in the city of New York.

Mr. SIMON. Is he also commissioner of markets in the city of New York?

Mr. GRACE. That is right, sir.

Mr. SIMON. Did you and he divide the fee?

Mr. GRACE. That is correct, sir.

Mr. SIMON. Which of you processed the application at FHA?

Mr. GRACE. I did.

Mr. SIMON. Why should he get half of the fee?

Mr. GRACE. It was a forwarding fee. He did some work in connection with the case.

Mr. SIMON. He got the case and sent it to you and you each did some work and you got half of the fee; is that correct?

Mr. GRACE. Yes.

Senator BUSH. What do you call a "forwarding fee," like a finder's fee, is that what one calls a finder's fee?

Mr. GRACE. No; I think it is distinguished from a finder's fee, Senator, the finder's fee would be somebody gets paid for finding a deal. A forwarding deal is the usual deal where you forward to a fellow attorney.

Mr. SIMON. Is it customary for you to pay 50 percent of your fee to somebody else?

Mr. GRACE. Sure, I will pay it if that is what the arrangement is, Mr. Simon. It is customary.

Mr. SIMON. If somebody can't handle one of these himself he brings it to you, and you take half of the fee and he takes half of the fee?

Mr. GRACE. Not usually; no.

Mr. SIMON. Wasn't Mr. Masciarelli capable of handling this matter himself?

Mr. GRACE. No, sir.

Mr. SIMON. Was that because being commissioner of markets is a full-time job?

Mr. GRACE. At that time I don't think he was commissioner of markets. He was practicing law.

Mr. SIMON. When did he become commissioner of markets?

Mr. GRACE. I don't recall the exact date, Mr. Simon.

Mr. SIMON. At any rate, the figures we have used of your income a little while ago are the net amounts you received?

Mr. GRACE. No; in some instances it is gross amounts.

Mr. SIMON. Will you give me any instance on that amount where it is the gross amount? I think you will find that we will about double the figure if you made it gross amounts, Mr. Grace.

Mr. GRACE. I will accept the figures. It don't make that much difference.

Mr. SIMON. Can you find any of those that isn't the net amount?

Mr. GRACE. I think of one here, Yellowstone Gardens. I think that is a gross amount. I am not certain of it.

Mr. SIMON. Is that the only one you think might be a gross amount?

Mr. GRACE. I think so. It is rather hard to look through these things and answer them accurately.

Mr. SIMON. Talking about gross amounts, in Fieldstone Gardens I believe you received a check from the Manhattan Bank for \$61,000; is that right.

Mr. GRACE. That is right.

Mr. SIMON. What was that \$61,000 check for?

Mr. GRACE. If my memory is correct, it represented part of the premium that was due to the builder in connection with the purchase of the loan by the bank.

Mr. SIMON. Why was it paid to you?

Mr. GRACE. Frankly, I don't know why it was paid to me. I think the best understanding of it that I was down at the brokers in the deal. The check had already been drawn to my order. Rather than sending it back to the Bank of Manhattan Co., it was left to my order and I drew the check out for forty-four-thousand-some-odd dollars.

Mr. SIMON. If you didn't know why it was given to you, why wouldn't you return it?

Mr. GRACE. It was all taken care of right there. I just took the fee that was due to me and turned the balance of it over to the builder's attorney.

Mr. SIMON. Weren't you his attorney?

Mr. GRACE. No, sir.

Mr. SIMON. What was your interest?

Mr. GRACE. I was the broker in connection with the deal.

Mr. SIMON. Mr. Traub was the attorney; is that right?

Mr. GRACE. Yes, sir.

Mr. SIMON. And you gave \$44,000 to Mr. Traub?

Mr. GRACE. I gave it to his firm.

Mr. SIMON. You drew your check direct to Dryer & Traub for \$44,000?

Mr. GRACE. Right.

Mr. SIMON. Forty thousand of that \$44,000 went to the Dorell Construction Co. Have you ever heard of them?

Mr. GRACE. I don't think so. I might have. There are so many of these corporations, Mr. Simon, I might have heard of them, but it doesn't mean anything to me.

Mr. SIMON. Do you know why the Dorell Construction Co. should have received \$40,000 of that check that you gave to Mr. Traub's firm?

Mr. GRACE. No, sir.

Mr. SIMON. Have you ever heard of that company before?

Mr. GRACE. I might have. I don't know. The name means nothing to me.

Mr. SIMON. The name means nothing to you at all?

Mr. GRACE. No.

Mr. SIMON. As I understand from you, in 1949 and 1950 the firm partnership return of your law firm showed Thomas Grace as a

partner and you show a distribution of partnership profits to him; is that right?

Mr. GRACE. That is right, Mr. Simon.

Mr. SIMON. How could he be a partner in your law firm, which was dealing with FHA, at the same time that he was the FHA State director?

Mr. GRACE. The reason we paid my brother—the reason he was down for \$19,000 in each one of those years—during the year 1949, 1950, my father was very sick—he was in and out of hospitals constantly. There were tremendous expenses in connection with it, all of which my brother Thomas paid. Some time late in 1949 we all got together and decided that it was too much of a burden for him to carry, and we should all take our share of the expense. Rather than take out the moneys and then return it to him, which would make it look like we were doing something that wasn't proper—

Mr. SIMON. And also increased your income taxes.

Mr. GRACE. That might very probably be so, but let me finish. He was a partner to the extent of \$19,000, a quarter share. That was to reimburse him during that period of time for all the expenses he had in connection with my father's illness and death in November of 1950.

Mr. SIMON. The two difficulties that I find with that statement, Mr. Grace, first, regardless of why you were giving money to your brother, it still doesn't answer my question of how he could be a partner in the law firm that was dealing with FHA. I understand your right to do what you will with your money that you have earned. But I still don't understand how he could be made a partner of the law firm that was dealing with FHA while he was the FHA State director.

Mr. GRACE. The firm in Brooklyn, Mr. Simon, did an extensive general law practice. They had nothing to do with FHA except one fee was paid to the Brooklyn office. So, therefore, the moneys that my brother was collecting was not FHA moneys, as such. The income of the firm was always sufficient to take care of whatever was paid to my brother other than from FHA matters.

Mr. SIMON. The difficulty with that, Mr. Grace, is that in 1950 and 1951 your brother received \$33,000, all of it from the New York office, and during that period of time while the New York office sent thousands of dollars over to the Brooklyn office, the Brooklyn office never sent a dime to the New York office. Therefore, every penny of the \$33,000 that he received in those 2 years came from the New York office, in addition to \$4,000 that came from you personally.

Mr. GRACE. Well, there were two people drawing from the Brooklyn office all the time, Mr. Simon. The moneys were consolidated for the purposes of the return. So it made no difference where the money came from.

Mr. SIMON. But isn't it the fact that you spent your time in the New York office; is that right?

Mr. GRACE. That is correct, sir.

Mr. SIMON. And the fees that were deposited in the bank account of the New York office were your fees?

Mr. GRACE. Yes, firm fees.

Mr. SIMON. And the fees that went into the New York bank account were largely fees of FHA matters, weren't they?

Mr. GRACE. That is right.

Mr. SIMON. And the money your brother got came out of the New York bank account, didn't it?

Mr. GRACE. That is right, sir.

Mr. SIMON. And no money from Brooklyn ever came over to New York, did it?

Mr. GRACE. No. When I started the firm I sent some money over to Brooklyn and returned it.

Mr. SIMON. But many, many thousands of dollars went from the New York office to the Brooklyn office in addition to the moneys Thomas got; isn't that right?

Mr. GRACE. That is right.

Mr. SIMON. In addition to the matters we have spoken about, Mr. Grace, aren't you involved in some projects under title I of the Housing Act?

Mr. GRACE. I am not involved in them. I represent some people who hope to build them, Mr. Simon.

Mr. SIMON. Don't you get a \$20,000 a year retainer from Pratt Institute, which is a title I slum clearance project?

Mr. GRACE. Yes. We bought the property on May 4 of this year.

Mr. SIMON. That is a project under title I of the National Housing Act?

Mr. GRACE. That is right, sir.

Mr. SIMON. I believe you are also the broker in Manhattan Town?

Mr. GRACE. That is right, sir.

Mr. SIMON. In the Pratt Institute case, as I understand it, Sam Casper and Sol Lisner each get 5 percent of the rents for putting out eviction notices; is that right?

Mr. GRACE. I don't know what they do for their 5 percent. They are a management company.

Mr. SIMON. You know they get the 5 percent?

Mr. GRACE. That is correct, they are the management company.

Mr. SIMON. You don't know what they do for it?

Mr. GRACE. I assume they manage the property, Mr. Simon.

Mr. SIMON. They both also receive income from Manhattan Town, don't they?

Mr. GRACE. I don't know.

Mr. SIMON. You don't know that they receive income from Manhattan Town?

Mr. GRACE. No, sir.

Mr. SIMON. Who is Sam Casper?

Mr. GRACE. He was a marshal in the city of New York, experienced in the real-estate business.

Mr. SIMON. How long was he marshal of the city of New York?

Mr. GRACE. I don't know, Mr. Simon.

Mr. SIMON. Now, Mr. Grace, in going through your books we find in the law firm books that there are a great number of fees that are not recorded and a substantial number of fees that were deposited in your personal bank account and not in the law firm account, or reflected in the books of the law firm. What was the reason for that?

Mr. GRACE. Well, there was no good reason. Some of these checks were probably made to my order and deposited to my account, and I disbursed out of them the moneys that were necessary in connection with them and turned over the net balance to the firm.

Mr. SIMON. There are apparently a number of cases in which you shared a fee with somebody and instead of depositing the incoming check in the firm account you deposited it in your own account and then drew them another check.

Mr. GRACE. That is right.

Mr. SIMON. Wouldn't you consider it normal business practice to deposit those in the firm books and keep a record of it?

Mr. GRACE. There was no reason for it, Mr. Simon. I have been racking my mind to wonder why I did it, and I can't come up with any plausible explanation for it. I just did it.

Mr. SIMON. In 1949, on your personal account, you draw a check to Solomon Kishner, as attorney, for \$14,850. What was that for?

Mr. GRACE. I don't know. It must have been in connection with an apartment project.

Mr. SIMON. Do you know what that \$14,850 check was for?

Mr. GRACE. No, sir.

Mr. SIMON. Do you have any files or records that would show what it was for?

Mr. GRACE. I might have some, but I don't recall them. This is a complete surprise to me when I saw it yesterday.

Mr. SIMON. In December of that year there is a check for \$14,130 to the Netherlands Apartments. Do you know what that is for?

Mr. GRACE. No. I think it is the same connection.

Mr. SIMON. But you don't know what these \$29,000 worth of checks are for?

Mr. GRACE. I cannot recall, Mr. Simon.

Mr. SIMON. Do you have any records that would shed any light on what those checks are for?

Mr. GRACE. I might. When I saw them yesterday it was a complete surprise to me, frankly.

Mr. SIMON. In your books of the Brooklyn office, there are several items of checks for \$1,000 drawn to cash and charged to entertainment. Do you know what those sums would be used for?

Mr. GRACE. No, I wouldn't, Mr. Simon. I didn't have anything to do with the entries on the books in the Brooklyn office.

Mr. SIMON. There is one check in your personal account for \$3,000 in cash. Do you know what happened to that money?

Mr. GRACE. I don't, Mr. Simon.

Mr. SIMON. Are you accustomed to dealing in such large sums in cash?

Mr. GRACE. No. I might have transferred the money into my savings account. I might have done any number of things with it.

Mr. SIMON. Wouldn't you have done that by check?

Mr. GRACE. I don't know.

Mr. SIMON. Was that \$3,000 in cash or any part of it paid to any person?

Mr. GRACE. No, sir. I don't know who it was paid to. I mean, if you mean it was paid to anybody—it must have been paid to somebody. I used it for some purpose.

Mr. SIMON. You have no idea where the proceeds of that \$3,000 check to cash went?

Mr. GRACE. No, I can't recall, Mr. Simon.

Mr. SIMON. There are substantial checks in your personal account to a Jack Sussman, Jack R. Sussman. Who is he?

Mr. GRACE. He is associated with me in the washing machine business.

Mr. SIMON. What was the purpose of these checks to him?

Mr. GRACE. I can't recall what they were for at this time, Mr. Simon. It might have had something to do with the purchase of stock and moneys we had to put up and collateral in buying machines.

Mr. SIMON. I find one in March of 1950 for \$7,500, another in April 1950 for \$1,250. Do you know what either of those are for?

Mr. GRACE. I think it was in connection with the purchase of stock.

Mr. SIMON. We find other checks in here in substantial amounts to the Coinmach Corp. That was for stock?

Mr. GRACE. That might have been a loan, Mr. Simon. I think it was a loan.

Mr. SIMON. Is that the company that has the washing machine contracts in these section 213 cooperative projects that Mr. McKenna spoke about earlier?

Mr. GRACE. In some of them, I believe.

Mr. SIMON. I think Mr. McKenna said that there were 19 section 213 projects in which these washing machines were located?

Mr. GRACE. I don't know, Mr. Simon.

Mr. SIMON. Are arrangements made to install those washing machines in the section 213 projects before the tenants take over?

Mr. GRACE. I assume sometimes before and sometimes after.

Mr. SIMON. Do you know how frequently it is the latter case?

Mr. GRACE. I don't know either way, Mr. Simon.

Mr. SIMON. There is a check for \$9,751 to the On-cab Building Corp. in December 1950. Do you know what that check is for?

Mr. GRACE. Yes, I think I was an escrow in connection with that.

Mr. SIMON. An escrow in connection with what?

Mr. GRACE. I don't remember what the transaction was, but the money was paid in to me and I paid them back out again.

Mr. SIMON. Do you know what the purpose of the escrow was?

Mr. GRACE. Yes, it was in connection with the possible purchase of a section 608 project.

Mr. SIMON. Which section 608 project?

Mr. GRACE. Well, now, I would have to plead ignorance. I think it might have been Maplewood, but I am not sure. Not Maplewood, Middlebrook.

Mr. SIMON. I find a number of checks here to Conrad Lowell, who I understand is the man in Lowell, Smith & Evers?

Mr. GRACE. That is right.

Mr. SIMON. What were your checks to him for?

Mr. GRACE. He shared in connection with the assignment of a contract. The money was paid to me and I paid them out to the other people.

Mr. SIMON. In your personal account you drew a check on January 5, 1951, to Dreyer & Traub for \$44,240. I assume that is the check we spoke of a minute ago?

Mr. GRACE. That is right, Mr. Simon.

Mr. SIMON. Why would that go through your personal account instead of the firm's books?

Mr. GRACE. Because at the time of the closing the only check available was my own check and they wanted a check right away, so I

gave them a check out of my account. When I went back to the office I deposited the check in Grace & Grace and had them draw a check to my order.

Mr. SIMON. On March 10, 1944, you gave a check to Abraham Traub for \$3,363. What was that for?

Mr. GRACE. It must have been a fee due him in connection with a closing.

Mr. SIMON. Do you know what it was?

Mr. GRACE. No, sir.

Mr. SIMON. Do you have any idea what it was?

Mr. GRACE. No; the date does not mean anything to me.

Mr. SIMON. On March 20, 1952, you drew a check in your personal account to the Bank of Manhattan for \$5,000. There is no further endorsement on the check. What was that \$5,000 for?

Mr. GRACE. Payment on account of a note, if I recall correctly.

Mr. SIMON. Whose note?

Mr. GRACE. My note.

Mr. SIMON. You had borrowed the money from the bank?

Mr. GRACE. Yes.

Mr. SIMON. Was it money for your own purposes?

Mr. GRACE. Yes.

Mr. SIMON. On August 29, 1952, you drew a check for \$2,000 to cash. That is just 2 years ago. It bears your endorsement indicating you cashed it at the bank.

Mr. GRACE. What is that?

Mr. SIMON. August 29, 1952, a check for \$2,000 to cash. Do you know what you did with that \$2,000?

Mr. GRACE. No; I am sorry, I don't.

Mr. SIMON. There are a number of checks, Mr. Grace, in your account that are missing. That is, the bank statement shows a check in a certain amount was drawn, but there isn't any check in the bank statement.

Mr. GRACE. We checked that last night, Mr. Simon, and can't seem to understand it.

Mr. SIMON. Where could those checks be?

Mr. GRACE. I don't know. If you will tell me what the amounts are—I think there are four of them—they seem to be mislaid some place. We didn't have a chance to thoroughly check the record this morning before we came in.

Mr. SIMON. When your checks come back from the bank don't you check your bank statement?

Mr. GRACE. My own personal statement?

Mr. SIMON. Yes.

Mr. GRACE. No, sir.

Mr. SIMON. Is there any doubt in your mind but what the bank does return to you with your statement all of the checks?

Mr. GRACE. I believe they do, although we found last night there was one missing from the firm account.

Mr. SIMON. Yes, and as you say, there were 3 or 4 or 5 missing from your own account. Do you have any idea where those could be?

Mr. GRACE. No. What are the amounts of the checks, Mr. Simon? Do you have a record of the amounts?

Mr. SIMON. I do here, somewhere.

There is one for \$540 in April of 1950 that seems to be missing. Do you know what that could have been for?

Mr. GRACE. No, sir.

Mr. SIMON. More interesting, or perhaps more important, there is one on January 17, 1951, for \$5,000, a round sum. That is missing. January 17, 1951.

Mr. GRACE. A check on my personal account?

Mr. SIMON. Yes; a check on your personal account.

Mr. GRACE. I don't know.

Mr. SIMON. Do you know what that could be or where the check could be?

Mr. GRACE. No. I could find out. It does not mean anything to me, Mr. Simon. I assume that they all came back.

Mr. SIMON. There is another one on September 17, 1951, for \$5,325. That is missing. Do you know where that check could be?

Mr. GRACE. No; I will check my checkbook.

Mr. SIMON. There are several smaller ones, but I take it you wouldn't know where they are either; would you?

Mr. GRACE. No. They are apparently missing.

Mr. SIMON. In your firm account there are also several missing: one in March of 1949, one in August of 1949, September of 1949. Do you know where any of those checks could be?

Mr. GRACE. No. We checked those last night, Mr. Simon, and there seemed to be some confusion about them.

Mr. SIMON. One for \$1,000, another for \$1,020, another for \$14 on your firm account, all missing.

Mr. GRACE. This is the first I know of it.

Mr. SIMON. As a matter of fact, the checks that I have just read to you aren't even listed in your books. There are 4 checks in addition to all the others that show on the bank statement, but these 4 don't appear anywhere in your books.

Mr. GRACE. Do they appear in the bank statement?

Mr. SIMON. Yes, but no entry on any of your books to indicate that those checks were ever drawn. Do you know where they could be?

Mr. GRACE. It could be a mistake. That is all I think, Mr. Simon.

Mr. KENNEY. What percent of your business is FHA business?

Mr. GRACE. I think somewhere around 65 percent, Mr. Kenney.

Mr. KENNEY. The fees that you have collected, are they within the framework of the FHA regulations?

Mr. GRACE. I don't know what you mean by that.

Mr. KENNEY. Are they permitted by FHA?

Mr. GRACE. I don't think there are any fees in the section 608's. I think the builder paid. There is no financing charge.

Mr. KENNEY. Since Mr. Grace resigned from FHA has your business tapered off or has it increased or held steady?

Mr. GRACE. Held steady, and possibly increased.

Mr. KENNEY. That is all I have.

Senator BUSH. Mr. Grace, did it ever occur to you that while your brother was the State director of the FHA that it was with questionable appropriateness that your firm should do such an extensive business in processing these applications with his office?

Mr. GRACE. Excuse me.

(The witness conferred with his counsel, Mr. Kleinman.)

Mr. GRACE. To answer your question directly, there is nothing to my way of thinking that was wrong. I have had experience in real-estate practice. I worked for 10 years for a savings bank. I became very proficient in real-estate practice, as such. I went out to practice law in 1946. I was the attorney for 5 or 6 upstate savings banks who were lending money in New York.

In 1947 when I first started my experience with section 608's it was as an attorney for a savings bank to close a loan for them. They knew as much about it at that time as I did. I studied up on the law and discussed it with them, showed them how they could make the loan and how they could close it.

During the period of 1948, 1949, and 1950, the only substantial real-estate business that was being done around the city of New York was FHA work and naturally I went into that type of business, because real estate was my law, the only law I knew.

If I had had to go to another field, that was foreign to me, and therefore I went to the section 608 business.

So far as my brother was concerned, he was the administrator of the office, he had nothing to do with the actual working of his office. The office was run by a local director. He was administrative head of the State. He had nothing to do with the actual processing of cases.

So, therefore, to my way of thinking there was nothing wrong with what I did.

Mr. SIMON. I learned just within the last minute, you told us over the last week or so that your personal account was in the Irving Trust Co.?

Mr. GRACE. That is right, sir.

Mr. SIMON. And you supplied us with the canceled checks in the Irving Trust Co. Now I am told you also have a personal account in the Bank of Manhattan; is that right?

Mr. GRACE. That is right, sir.

Mr. SIMON. How long have you had that account?

Mr. GRACE. Well, it is a very inactive account. I don't think I have used it for 3 or 4 years. I merely keep a balance over there.

Mr. SIMON. You didn't tell us about that account, did you?

Mr. GRACE. No, I thought it was——

Mr. SIMON. You say it has not been active in the last 3 years. Was it active in 1949 and 1950?

Mr. GRACE. For a short period of time; yes.

Mr. SIMON. Do you have those bank statements?

Mr. GRACE. No, I looked around for them. I brought over every statement I had yesterday, Mr. Simon. You asked me to bring what I had, and I brought them.

Mr. SIMON. We asked you for your personal bank accounts, and you didn't tell us about it.

Mr. GRACE. I have not used it in so long a time.

Mr. SIMON. You said a few minutes ago that a reason your brother Tom got this money from the firm was because your father was ill. Do you know that on his income-tax returns your brother Tom claimed only \$6,472.90 for expenses of your father's illness?

Mr. GRACE. I don't know what he claimed, Mr. Simon. I never saw his returns.

Mr. SIMON. Is it your thought that the \$45,000 which he received, the bulk of it being paid after your father's death, was solely to reimburse him for expenses in connection with your father's illness?

Mr. GRACE. That was the purpose of his drawings, Mr. Simon; yes, sir.

Mr. SIMON. Is it your testimony that the entire \$45,000 was to reimburse him for expenses of your father's illness?

Mr. GRACE. The only drawings I know of, Mr. Simon, was \$38,000. The other \$8,000 that you spoke to me about, I don't know what it was for, and I can't answer. You asked me if the amount was \$45,000 and I said "Yes." What the purpose of it was, I don't know.

Mr. SIMON. You know about \$38,000, you say?

Mr. GRACE. Yes.

Mr. SIMON. In addition you know about \$4,400 that came out of your own personal account, don't you?

Mr. GRACE. Yes, sir.

Mr. SIMON. In addition you know about \$4,300 paid to this Riker subdivision, don't you?

Mr. GRACE. That is right, but I would have to refresh my recollection as to what they were for, whether they were for drawings or otherwise.

Mr. SIMON. The \$38,000 plus the \$4,400, plus the 43, gets up well past \$40,000?

Mr. GRACE. That is right.

Mr. SIMON. Is it your testimony that the \$38,000, the \$4,400, and the \$4,300 was solely to reimburse your brother for expenses of your father's illness?

Mr. GRACE. All I can go back to is the \$38,000—the other two items I don't recall what they were, so I testified that \$38,000 was paid to him for the purpose of reimbursing for expenses in connection with my father's death.

Mr. SIMON. Is it your testimony that he spent \$38,000 in connection with your father's illness?

Mr. GRACE. I don't think I can answer that, Mr. Simon. I don't know what he spent it for, but I know the reasons why we gave it to him was because the \$38,000 and the additional amount of taxes, the balance he had left was to be for my father. What he spent it for I couldn't tell you. I assume that is what he spent it for.

Mr. SIMON. I would like to warn you that his income-tax return shows \$6,427.90 as expenses for your father's illness. Now, I am asking you whether it is your testimony that the only reason that he got the \$38,000 which you will notice is more than 6 times the amount that he claimed for expenses, was to reimburse him for expenses of your father's illness?

Mr. GRACE. Mr. Kleinman says he made no requests for deductions in the year 1949. Of course, the fact that you take a deduction has nothing to do with the expense. All expenses are not allowable as a deduction.

Mr. SIMON. What I am trying to find out from you, Mr. Grace, is whether that entire \$38,000, whether your testimony is that the sole purpose for which he was paid the \$38,000 was to reimburse him for expenses of your father's illness?

Mr. GRACE. Yes.

Mr. SIMON. That is the sole purpose?

Mr. GRACE. Yes, sir.

Mr. SIMON. It is your understanding that the expenses of your father's illness were \$38,000; is that correct?

Mr. GRACE. After deduction for taxes.

Mr. SIMON. It is your understanding that the expenses of your father's illness, plus the taxes on that amount, totals \$38,000?

Mr. GRACE. In that neighborhood; yes, sir.

Mr. SIMON. Is that your testimony?

Mr. GRACE. That is my testimony.

Mr. SIMON. When did your father die?

Mr. GRACE. November of 1950.

Mr. SIMON. How do you account for the fact that for example, \$5,000 was paid your brother on June 14, 1951?

Mr. GRACE. That was reimbursing him for moneys he had spent, Mr. Simon.

Mr. SIMON. Although that was 8 months later?

Mr. GRACE. That is right.

Mr. SIMON. How do you account for the fact that \$6,300 was paid to him in 1946?

Mr. GRACE. I knew nothing about that.

Mr. SIMON. You don't know anything about that?

Mr. GRACE. 1946; no, sir.

Senator BUSH. Have you finished?

Mr. SIMON. Yes, sir.

Senator BUSH. We have no further questions. We thank you very much for being here this morning.

Mr. KLEINMAN. May we have a moment before he leaves?

(Mr. Grace and his counsel, Mr. Kleinman, conferred.)

Mr. GRACE. I just wanted to see if I answered all the questions.

Senator BUSH. The committee would be very glad to receive any further statement from you if you think of anything after you are dismissed that you would like to put in the record at this point. We will be glad to have you submit it in writing.

Mr. GRACE. When I get a copy of the transcript, Mr. Simon, I will check it over to see if there is anything.

Senator BUSH. Mr. Thomas Grace.

Mr. Grace, will you raise your right hand, please? Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF THOMAS GRACE, BROOKLYN, N. Y., ACCOMPANIED
BY WILLIAM W. KLEINMAN, COUNSEL**

Mr. THOMAS GRACE. I do.

Mr. KLEINMAN. May I state, Mr. Chairman, that Mr. Thomas Grace, by reason of illness, objects to being televised or photographed over the moving-picture cameras.

Senator BUSH. The witness objects.

Mr. GRACE. These bright lights are very annoying.

Senator BUSH. The witness objects.

Mr. GRACE. The witness does.

Senator BUSH. I am sorry. Therefore, we will have to discontinue it.

Mr. SIMON. Mr. Grace, will you give the reporter your full name and address, please?

Mr. GRACE. Thomas G. Grace, 362 Ovington Avenue, Brooklyn, N. Y.

Mr. SIMON. Were you FHA State director for New York?

Mr. GRACE. Yes, sir.

Mr. SIMON. During what period of time?

Mr. GRACE. 1933 to 1952.

Mr. SIMON. Could you talk a little louder?

Mr. GRACE. 1933 to 1952.

Mr. SIMON. When did you cease to be FHA State director?

Mr. GRACE. July 31, 1952.

Mr. SIMON. July 31, 1952?

Mr. GRACE. I submitted my resignation July 31.

Mr. SIMON. What was the reason for your resignation?

Mr. GRACE. I had completed 20 years.

Mr. SIMON. Were you asked for your resignation?

Mr. GRACE. No, sir.

Mr. SIMON. In 1948 did the FHA make an investigation of alleged conflict of interests problems in your connection?

Mr. GRACE. No, sir.

Mr. SIMON. You never heard of that?

Mr. GRACE. No, sir.

Mr. SIMON. Did anybody in FHA ever speak to you about your relations with the law firm of Grace & Grace?

Mr. GRACE. Never, sir, except the fact that I was a member of the firm of Grace & Grace, and made a full disclosure of everything in connection with it and received back an O. K. from the personnel office.

Mr. SIMON. Who did you make that disclosure to and from whom did you get the O. K.?

Mr. GRACE. My deputy commissioner.

Mr. SIMON. Who is that?

Mr. GRACE. James Neville.

Mr. SIMON. How do you spell that?

Mr. GRACE. N-e-v-i-l-l-e.

Mr. KLEINMAN. He was zone commissioner.

Mr. SIMON. You told Mr. Neville that you were a partner in this law firm?

Mr. GRACE. And since 1947, when I first made it known to the FHA, on the certificate of outside activities, I said what I had done and that I was a member of the firm of Grace & Grace.

Mr. SIMON. Did you tell them that the firm of Grace & Grace handled more FHA applications than any other law firm in New York?

Mr. GRACE. That is not a fact, sir.

Mr. SIMON. What law firm in New York handled more FHA applications than Grace & Grace?

Mr. GRACE. I don't know, sir.

Mr. SIMON. Do you know of any firm that handled more?

Mr. GRACE. I couldn't tell you offhand.

Mr. SIMON. Your brother has—

Mr. GRACE. But I know that they did not.

Mr. SIMON. Your brother has identified, a few minutes ago, a list of 80 FHA applications filed by the firm of Grace & Grace. Do you know of any New York law firms that filed more than 80 applications?

Mr. GRACE. There could have been many, sir. We had a thousand applications.

Mr. SIMON. Do you know of any 1 law firm that filed more than 80 of them?

Mr. GRACE. At the moment I don't recall. I don't keep track of the applications.

Mr. SIMON. Can you name just 1 law firm that filed more than 80 applications?

Mr. GRACE. I don't recall.

Mr. SIMON. Did you tell the FHA that during the period of about 4 years preceding your resignation that your brother had received \$400,000 in fees in FHA matters?

Mr. GRACE. I didn't know that, sir. I had not inquired, nor was I asked.

Senator BUSH. I will have to caution counsel not to answer for the witness through his ear. I think the witness has a right to consult counsel, but the committee does not care to have counsel make the answers for the witness.

Mr. KLEINMAN. I didn't attempt to make all the answers.

Senator BUSH. If you will kindly observe that.

Mr. KLEINMAN. I will, sir.

Mr. SIMON. Mr. Grace, in the last 5 or 6 years that you were State director of FHA did you receive \$48,000 from the law firm of Grace & Grace?

Mr. GRACE. I received \$38,000.

Mr. SIMON. The books of Grace & Grace, in Brooklyn, show that you received \$10,421.57; is that wrong?

Mr. GRACE. I don't know, sir. I will check it for you. I will be glad to check it because I had nothing to do with the firm of Grace & Grace in Brooklyn or New York while I was State director.

Mr. SIMON. Well, can you tell me whether or not you did receive—and I think your brother testified a minute ago—I don't mean to be restating this testimony—

Mr. GRACE. I can't tell you whether I did or I didn't. I will be glad to look it up.

Mr. SIMON. Do you know whether on October 26, 1946, you received \$6,337.50 from the Brooklyn office?

Mr. GRACE. I don't recall. It may have been a mortgage that belonged to me.

Mr. SIMON. Do you know whether you received it?

Mr. GRACE. I don't know, sir.

Mr. KLEINMAN. What year was that?

Mr. SIMON. October 26, 1946.

Are you in a position to say, Mr. Grace, that you did not receive \$10,421.57 from the Brooklyn office?

Mr. GRACE. No, sir; I can't tell you whether I did or I didn't. They had serviced my mortgages, of which I had upward of \$100,000. They forwarded the checks to me when they got the payments.

Mr. SIMON. Did you receive \$4,402.07 in 1949 from your brother George?

Mr. GRACE. I may have gotten it as a mortgage that was due to me. I don't recall. I will be glad to look it up for you. What records I have I will be glad to look it up and advise you.

Mr. SIMON. On February 24, 1949, your brother George gave you his check for \$4,000. Do you know what that was for?

Mr. GRACE. No, sir; I don't recall.

Mr. SIMON. Your brother George issued a check on his Brooklyn office, 2 checks, 1 for \$4,178.50 and 1 for \$1,000 to the Riker Subdivision. He says that was for some land you were buying.

Mr. GRACE. Yes, sir.

Mr. SIMON. That came from the New York office. Was that money paid for your account?

Mr. GRACE. Paid for my account?

Mr. SIMON. Yes.

Mr. GRACE. Yes, sir; it was a loan to me paid from the New York office.

Mr. SIMON. Did you ever repay that loan?

Mr. GRACE. No, sir. I just sold the property.

Mr. SIMON. In other words, your brother George loaned you the money to buy some real estate, you say?

Mr. GRACE. Yes, sir.

Mr. SIMON. Did you give him a note for it?

Mr. GRACE. No, sir.

Mr. SIMON. And you never repaid it?

Mr. GRACE. No, sir. I just sold the property.

Mr. SIMON. Is there any evidence in the world other than your statement to that effect that this was a loan and not a payment.

Mr. GRACE. Just the relationship of brother, sir. That is all.

Mr. SIMON. But other than your word we have no evidence that it is a loan?

Mr. GRACE. No, sir.

Mr. SIMON. Were you a partner in the law firm of Grace & Grace in 1949, 1950, and 1951?

Mr. GRACE. I was an inactive partner.

Mr. SIMON. What do you mean by an "inactive partner"?

Mr. GRACE. Not taking part in the affairs of the firm, lawsuits, counseled with anybody or anything else, or representing the firm at any time.

Senator BUSH. Were there articles of partnership?

Mr. GRACE. No, sir.

Senator BUSH. There were no articles of partnership?

Mr. GRACE. No, sir.

Senator BUSH. Did you have a fixed interest in the firm as to the profits of the firm, did you have a 5 percent or a 10 percent interest in the profits of the firm?

Mr. GRACE. Twenty-five percent.

Senator BUSH. Your interest was 25 percent?

Mr. GRACE. Yes, sir.

Senator BUSH. A quarter interest in the firm?

Mr. GRACE. Yes, sir.

Senator BUSH. That was simply a gentlemen's understanding?

Mr. GRACE. Yes, sir; four brothers.

Senator BUSH. No articles?

Mr. GRACE. No, sir.

Mr. SIMON. Was it your understanding, Mr. Grace, that while you would do none of the work you would share in one-fourth of the fees?

Mr. GRACE. No, sir. I didn't share in the fees except when my father was sick. And before he was sick he lived with me and I had the expense of my father for all the time that he was there until it got in the latter part of 1949 he got to be really sick and we had to get a nurse, and I went to my brothers and told them what the situation was, and thought that they should do something about it. They had a meeting themselves and agreed to give me money from time to time.

Senator BUSH. Up to that time did you have a 25 percent interest in the firm?

Mr. GRACE. Yes, sir. I started the firm, sir.

Senator BUSH. So your interest continued at 25 percent up to the time of your father's illness, and through that time?

Mr. GRACE. Yes, sir, but I didn't take anything.

Mr. SIMON. Let's take 1950 for—

Mr. KLEINMAN. Excuse me a moment.

Senator BUSH. May I just ask a question. Mr. Grace, I don't quite understand. I understand that you had a 25 percent interest in the firm during the years, let us say, 1946, 1947, 1948, and 1949?

Mr. GRACE. Yes, sir.

Senator BUSH. Did you get any money out of that 25-percent interest?

Mr. GRACE. No, sir.

Senator BUSH. You didn't take it out?

Mr. GRACE. No, sir.

Senator BUSH. What did you do with it?

Mr. GRACE. I was in the FHA.

Senator BUSH. What happened to your 25-percent interest in the firm? The firm made money.

Mr. GRACE. Yes, sir, but I didn't take any.

Senator BUSH. Was it deposited to your credit?

Mr. GRACE. No, sir.

Senator BUSH. How can you have a 25-percent interest and don't get any money out of it?

Mr. GRACE. I was working for the FHA at that time.

Senator BUSH. What happened to the 25-percent interest that was yours?

Mr. GRACE. It was taken by my three brothers.

Senator BUSH. They divided it?

Mr. GRACE. Yes, sir.

Senator BUSH. Then you didn't have it?

Mr. GRACE. I didn't get it.

Senator BUSH. Do you have any interest in the undivided assets of the firm, such as they may be?

Mr. GRACE. Now I have; yes, sir.

Senator BUSH. Did you during that period?

Mr. GRACE. I suppose I did by reason of the fact that I was a partner.

Senator BUSH. But you didn't take any money?

Mr. GRACE. No, sir; but I didn't have any interest in the money that they had.

Mr. SIMON. Mr. Grace, taking 1950, which is the year your father died, and I assume your expenses would have been the highest in that year; is that right?

Mr. GRACE. Yes, sir.

Mr. SIMON. Did you claim \$6,427.90?

Mr. GRACE. I gave a list to my accountant and they took the items that were deductible and claimed it on my income tax.

Mr. SIMON. Isn't it a fact, Mr. Grace, that you claimed \$6,427.90 as expenses and the Internal Revenue Service allowed you only \$3,750?

Mr. GRACE. Not to my knowledge, sir.

Mr. SIMON. You didn't know that?

Mr. GRACE. No, sir. My tax was paid, and I believe it was \$4,000, as my accountant prepared my statement?

Mr. SIMON. What was \$4,000?

Mr. GRACE. \$6,400, the amount you mentioned.

Mr. SIMON. The \$6,427.90 was the amount you claimed as a deduction. Isn't it a fact that the Internal Revenue Service allowed you only \$3,750?

Mr. GRACE. I don't know about it, sir.

Mr. SIMON. You don't know about it?

Mr. GRACE. No, sir.

Mr. SIMON. At any rate, the amount you claimed was \$6,427?

Mr. GRACE. I believe so.

Mr. SIMON. Well, now, how do we account for the fact that you claimed your father's expenses were \$6,500, and your brothers paid you \$19,000 in that year?

Mr. GRACE. Because I had my father living with me before he got into his fatal illness, sir; to reimburse me for the disbursements that I paid out during his illness that caused his death, and prior thereto.

Mr. SIMON. Let's assume——

Mr. GRACE. My father was 80 years of age, a good father who raised 10 children and not one of them was going to let him down.

Mr. SIMON. Let's assume that your brothers owed you \$48,000 for the maintenance of your father, and certainly if they wanted to give you \$48,000 of their money they had a right to do it. But how does that make you entitled to share in the profits of this law firm?

Mr. GRACE. It wasn't necessarily to share in the profits. It was what they gave me to reimburse me for the care and maintenance of my father. A man 80 years of age, on his dying bed is not a pleasant problem for anybody.

Mr. SIMON. I appreciate that, Mr. Grace, but what I am concerned with is that they filed a tax return saying that you were a partner in the law firm and that your share of the profits in the law firm was \$19,000 for each of those years.

Mr. GRACE. Yes, sir.

Mr. SIMON. Was that your share of the profits in the law firm or was that some money your brothers were going to give you for some other reason?

Mr. GRACE. I presume they treated it that way. I didn't have anything to do with the preparation of the tax returns, nothing.

Mr. SIMON. Did you know that the law firm's partnership tax return for those years showed you as a partner and said that this money was your share of the partnership profits?

Mr. GRACE. Yes, sir, I got my tax return and signed it.

Mr. SIMON. I am talking about the partnership tax return.

Mr. GRACE. No, sir, I didn't see that.

Mr. SIMON. You didn't know that they said you were a partner?

Mr. GRACE. I don't know whether they did or not, sir. I presumed I was.

Mr. SIMON. Did you know that those funds which, according to their books, totaled \$48,000, came to you largely out of a bank account the proceeds of which were very largely fees in FHA matters?

Mr. GRACE. Would you give me the question again?

Mr. SIMON. Yes. Did you know that the moneys that you received which, according to their books, totaled \$48,300, were very largely paid to you out of a bank account in New York, at the Irving Trust Co., in fact?

Mr. GRACE. No, sir. It was a general partnership of four brothers.

Mr. SIMON. Let me finish my question. Did you know that those funds came to you out of a bank account, the deposits in which bank account were very largely fees in FHA matters?

Mr. GRACE. No, sir.

Mr. SIMON. You didn't know that?

Mr. GRACE. I didn't know that they came that way. The Brooklyn office with which I was associated and was always associated with, except the fact that when my brothers opened the law firm in New York—

Mr. SIMON. Mr. Grace, do you know that in 1950 you received about \$22,000—

Mr. GRACE. Yes, sir.

Mr. SIMON. On checks drawn on the Irving Trust Co. in New York?

Mr. GRACE. They were deposited in my account, sir.

Mr. SIMON. But they were drawn on the Grace & Grace bank account at the Irving Trust Co. in New York, weren't they?

Mr. GRACE. I guess they were, sir.

Mr. SIMON. You would have to know that when you saw the check, wouldn't you?

Mr. GRACE. Yes, sir. I believe they were. I presume they were. I take your word that they were.

Mr. SIMON. You also knew that the business of the New York office was largely FHA business, didn't you?

Mr. GRACE. Not necessarily, sir.

Mr. SIMON. You didn't know that?

Mr. GRACE. Not necessarily.

Mr. SIMON. Your brother has testified this morning that 65 per cent of the fees of the New York office were on FHA matters.

Mr. GRACE. Could have been.

Mr. SIMON. Did you know that?

Mr. GRACE. No, sir.

Mr. SIMON. You didn't know that?

Mr. GRACE. No, sir; I did not.

Mr. SIMON. Do you think that section 281 of title 18 of the United States Statutes makes it an unlawful act for a FHA State director to participate in fees on FHA matters?

Mr. GRACE. No, sir; I didn't know it.

Mr. SIMON. You didn't know that?

Mr. GRACE. No, sir.

Mr. SIMON. Are you acquainted with the firm of Lowell Associates?

Mr. GRACE. Yes, sir.

Mr. SIMON. What is their business?

Mr. GRACE. Mortgage correspondents.

Mr. SIMON. Did you know that the firm of Lowell Associates was owned by Lowell, Smith & Evers?

Mr. GRACE. Yes, sir.

Mr. SIMON. Did you know that Lowell, Smith & Evers were substantial dealers in FHA mortgages?

Mr. GRACE. I knew that they were brokers in FHA business, the same as others were. I didn't know of any particular knowledge that they were because they were mortgage brokers and servicing agents for other banks and other institutions, and made loans to other institutions.

Mr. SIMON. Now, Mr. Grace, your wife was on the payroll of Lowell Associates; is that right?

Mr. GRACE. Yes, sir.

Mr. SIMON. What did she do for them?

Mr. GRACE. My wife was the secretary. Lowell Associates was a corporation that serviced the mortgages that I owned personally.

Mr. SIMON. What work did your wife do for that corporation?

Mr. GRACE. Just got the statements and one thing and another, the same as any individual would do with their own mortgage portfolio.

Mr. SIMON. You say she was a secretary. You mean she went down there and took dictation and transcribed it?

Mr. GRACE. No, sir; she was the secretary of the corporation that owned the mortgages that I owned myself, and which I put into the Lowell Associates to service in order to obviate the necessity of any embarrassment of people, mortgagees who owed me money coming to me and paying me the money, or making any requests.

Mr. SIMON. Did you pay Lowell Associates a fee for servicing those mortgages?

Mr. GRACE. I did. I still do.

Mr. SIMON. And you know that Lowell Associates was owned by Lowell, Smith & Evers; is that right?

Mr. GRACE. Yes.

Mr. SIMON. And your brother owns, I believe, a 25 percent interest in Lowell, Smith & Evers?

Mr. GRACE. Yes, sir.

Mr. SIMON. And most of Lowell, Smith & Evers' business was, during this period, in FHA mortgages?

Mr. GRACE. I didn't know that, sir.

Mr. SIMON. You didn't know that?

Mr. GRACE. No, sir; any more than any institution in the city of New York at that time did practically 100 percent FHA business regardless of what organization you took—the big banks, the small banks, the big mortgage companies, the small mortgage companies, and everybody.

Mr. SIMON. Did you own any stock in either Lowell Associates or Lowell, Smith & Evers?

Mr. GRACE. In Lowell, Smith & Evers; no, sir.

Mr. SIMON. In Lowell Associates?

Mr. GRACE. In Lowell Associates I owned the stock in it.

Mr. SIMON. Your brother told us that Lowell Associates was owned by Lowell, Smith & Evers.

Mr. GRACE. It is because I gave it back to them.

Mr. SIMON. When did you give it back to them?

Mr. GRACE. When? When I took my mortgages out of there.

Mr. SIMON. When was that?

Mr. GRACE. About a year ago. When I left the FHA I believe I took the mortgages and assigned them to myself and serviced them myself, and left the shell of the corporation.

Mr. SIMON. You owned the stock in Lowell Associates before you gave it back to them; is that right?

Mr. GRACE. Yes, sir.

Mr. SIMON. Going back to my prior question, what services did your wife perform for Lowell Associates in the years 1949 through 1952?

Mr. GRACE. Just for services that anybody would in a dummy corporation such as that was, being serviced by another organization.

Mr. SIMON. You mean by that something that would take maybe half an hour a week?

Mr. GRACE. Maybe an hour, maybe not.

Mr. SIMON. Mr. Grace, we had the testimony of a witness here this morning who identified an application that he filed for a section 608 commitment in May of 1949, and no action was taken on it for a period of a little over 6 months. He then testified, and we have photostatic copies of the applications here, that after 6 months of no success he filed an amended application with your brother as his counsel, and in 2 months the commitment was issued.

Does that seem to be a normal procedure for you?

Mr. GRACE. Yes, sir.

Mr. SIMON. Why was it that this man couldn't get a commitment in even 6 months without your brother as his lawyer—

Mr. GRACE. Sometimes they took 9 months or 12 months to get the commitments.

Mr. SIMON. How could your brother get it in 2 months?

Mr. GRACE. He might have gotten it in 2 days if he happened to bring it in at the time. It was the rule in the FHA in New York that once an application went on the schedule it stayed there and nobody changed it. They were listed in 1, 2, 3, 4, 5, 6, and nobody changed it. As you came down and you got your case cleared you were processed.

Mr. SIMON. Are you telling us that this man would have gotten his application in 2 more months even if he hadn't hired your brother?

Mr. GRACE. Yes, sir.

Mr. SIMON. He apparently spent his money for nothing then; is that right?

Mr. GRACE. It could well be, sir. It happened before.

Senator BUSH. Did you, Mr. Grace, did you ever do anything in your official capacity as FHA director for the State to expedite in any way the applications that were filed by your brother's firm or your firm?

Mr. GRACE. Not by my firm, Senator, or anybody else's firm; nobody's firm.

Mr. SIMON. You never did?

Mr. GRACE. Never did. I have the list of the cases that came in which I kept myself in my office, because I was not a processing director. I got them down, numbered, and they processed them exactly. Right now they were processed regardless of who put the application in, according to the date it was received, and a notation was made on the record, and I have that record.

Mr. SIMON. Do you know anything about the Patchogue Gardens project?

Mr. GRACE. No, sir. Patchogue Gardens?

Mr. SIMON. Yes.

Mr. GRACE. I know about that case. That was a case that—

Mr. SIMON. Wasn't that processed in a matter of a week or so after the application was filed?

Mr. GRACE. By direction.

Mr. SIMON. But it was processed within a week—

Mr. GRACE. By direction from Washington. We were told to process the case because the Atomic Energy Commission had made a complaint to Washington that they had to have a house in order to house their personnel and that the application should be processed immediately. Washington gave us the directions to process it.

Mr. SIMON. Then all applications weren't processed in numerical order, in the numerical order in which they were received; were they?

Mr. GRACE. Yes, sir; except that one.

Mr. SIMON. Is that the only one—

Mr. GRACE. The only application that was taken out and that was taken at the direction of Washington, not by the New York office or the New York director, or anybody, but they did it because the Atomic Energy Commission was opening up in Brookhaven and they had no place for people to live and we got a builder—the underwriters got a builder—to come in and build the building.

Mr. SIMON. Is it your testimony—and I want to make sure we understand you—that except for Patchogue Gardens, which I just happened to think of at the moment, no application in the New York FHA office was ever processed any quicker than any other application filed at the same time or about the same time?

Mr. GRACE. I wouldn't say that, sir.

Mr. SIMON. That is what I thought you said, and I didn't think you meant to say that.

Mr. GRACE. Not exactly that. Every week the underwriting staff came into my office with the list. We went down it. Each one around in the room, the underwriters and the evaluators and the architects and the mortgage risk men, stated the condition in which the case was.

Mr. SIMON. So that you did have personal supervision over every case; didn't you?

Mr. GRACE. No, sir.

Mr. SIMON. Isn't that what you just testified to?

Mr. GRACE. I am just telling you now what took place. When we found that the preliminary men didn't have enough applications we put a couple of cases into the underwriting division. If one of the cases was being processed and was in good shape, that case came out. Maybe a day, maybe a week, or a month before one of the cases that went into the underwriting at the same time did. They all came out the same.

Mr. SIMON. You said, first, you did have personal contact each week, as I understand it, with every case; is that right?

Mr. GRACE. Just on the list; yes, sir. Not processing. It was a name on a list. I went down the list—the underwriter would say the evaluation, we have finished with it; the architect would say, we are finished with it, and the mortgage risk would say he is finished with it. Then we would take another case off the list.

Mr. SIMON. I didn't mean to infer, Mr. Grace, that you personally went through each file, but you did have personal supervision over every case in the office through these weekly meetings; is that right?

Mr. GRACE. Yes, I did; over the whole State. I was State director.

Mr. SIMON. Secondly, you don't mean to leave the impression with this committee that all applications were processed in the order in which they were received?

Mr. GRACE. Yes, sir.

Mr. SIMON. They were?

Mr. GRACE. Definitely, sir.

Mr. SIMON. Let's go back.

Mr. GRACE. They went into the underwriting division for processing, according to the way they were received.

Mr. SIMON. Did they come out according to the way they were received?

Mr. GRACE. No, sir.

Mr. SIMON. That is it. I don't want to have this record be inaccurate. You are not meaning to tell us that the commitments were issued in the same order in which the applications were filed?

Mr. GRACE. No, sir; because if somebody had his application in good order it was processed, and if he didn't have his case in good order and came in and complained, and everything else, we found about the case and we told him where it was.

Mr. SIMON. Some applications went through in 2 or 3 or 4 months and others took 10 or 12 months; isn't that right?

Mr. GRACE. I couldn't tell you the time, Mr. Simon. I didn't have that close contact with the case.

Senator BUSH. Do you have any questions?

Mr. KENNEY. No.

Senator BUSH. I think that is all. Thank you very much, Mr. Grace.

Mr. KLEINMAN. Would you permit us, Mr. Chairman—we have several letters in our file which were addressed to various officials in the Federal Housing Administration, written by Mr. Grace at different times, over a period of about a year or two, in connection with the matters that he has been questioned about by Mr. Simon, and by you, sir. That is relative to the possible conflict of interest and whether or not free and open disclosure was made by Mr. Grace to the authorities who were interested.

I should like to read them into the record. I think I can assure you that they are pertinent to the investigation already made. I have them here in front of me.

Senator BUSH. Can't we just take the letters and put them into the record without taking the time to read them? How long are they?

Mr. KLEINMAN. It would probably take about 10 minutes all told, and unfortunately the impression has been created that Mr. Grace has had some interest which was adverse or in conflict with his official

duties. My purpose is to show that his superiors knew of whatever outside interests he had in addition to his official duties.

If we are merely to put the letters into the record, the reporting on this case and the press which is here will not have the advantage of it.

Senator BUSH. Go ahead; we will be glad to receive them. We certainly want to show every consideration here.

I think that what the committee would like to do is to let you read the letters, but then have the letters themselves for our records. You will read them first and then afterward you will submit them for the record.

Mr. KLEINMAN. If I may suggest, sir, these are the only copies we have. I will have photostats made of each one within the day and give it to Mr. Simon.

Senator BUSH. That will be satisfactory.

Mr. KLEINMAN. Thank you.

This is a memorandum of a communication dated October 25, 1951, which reports a telephone conversation between Mr. Grace and Mr. James Neville. The memorandum is as follows:

The attached general policy of the Administrator of the Housing and Home Finance Agency concerning private business and financial activities of employees and representative appearances of former employees dated July 31, 1951, was received with the Federal Housing Administration Handbook for Employees in the New York office on October 24, 1951, and the same was distributed to all employees.

I called—

and may I interpolate at this point that "I" is Mr. Thomas Grace—

I called Mr. James Neville, zone commissioner, on Thursday, October 25, 1951, and stated to him that inasmuch as the memorandum was extremely broad that I felt that I should discuss the matter with him as I am the senior member of the law firm of Grace & Grace, and have been since the date of my appointment; that these facts appear in the record and I am sure on the statement of outside activities. This has always been known to everybody in the Administration, and I felt that inasmuch as this statement was very broad that the matter should be taken up with him again. I advised him that while I have never engaged in the private practice of the law, either directly or indirectly, nevertheless I was the senior partner of the law firm and entitled to dividends if and when declared. He stated that he was aware of the fact and that there had been several questions raised with respect to the new policy statement, but nothing needed to be done at this time as the whole affair would stand on the present record.

I advised him that it has always been my policy not only to live up to the letter but to the spirit of the law and if there was any question at this time that I wanted it made very clear so that there would be no misunderstanding.

Senator. BUSH. That is a record of his conversation with Mr. Neville?

Mr. KLEINMAN. Yes; and we have a letter which follows. That is a record of the conversation between Mr. Thomas Grace and Mr. Neville.

On October 25, 1951, which was the same day, the telephone conversation of the record of which I have just read, a letter was sent by Mr. Thomas Grace, dated October 25, 1951, addressed to Mr. James F. Neville, zone commissioner, Federal Housing Administration, Washington, D. C.

DEAR JIM: I am supplementing my telephone conversation with you today concerning the memorandum dated July 31, 1951, entitled "General Policy of the Administrator, Housing and Home Finance Agency," concerning private business and financial activities of employees and representative appearances of former

employees which we received on October 24, 1951, together with the Handbook for Employees of the Federal Housing Administration.

I am writing you at this time in order that we may have a clear understanding of the matter so that there will be no difficulties in the future. As you know, at the time of my appointment and since then I have been the senior member of the firm of Grace & Grace, and entitled to dividends whenever declared, although I have never handled a case since my appointment as State director in 1935. I think that all of the statements of outside activities on file in Washington show that I do not and have never engaged in the practice of the law or acted in any way that would reflect discredit on the administration of my office. The firm of Grace & Grace has been in existence for 25 years and numbers among its clients savings banks, business banks, insurance companies, and individuals and is engaged in the general practice of the law. Such a practice in the times we have had for the last few years would naturally include real estate matters and closings.

From time to time I have engaged in the buying and selling of real estate and so have the members of my family but at no time was any purchase, sale, or other transaction the result of any confidential information and at no time did it have anything to do with any future housing developments to be submitted to this office or any other office.

Inasmuch as I have at all times during my administration tried to conduct the affairs of the Administration with integrity and impartiality and strictly in accordance with the letter and spirit of every mandate, law, and Executive order, as well as the rules and regulations of our Administration, I would like your advice in the matter in order that it may continue in the light of the policy as set forth in the July 31, 1951, letter.

(Signed) THOMAS G. GRACE,
State Director.

Mr. SIMON. May I interrupt you for a moment there. I can't help but observe that the letter went into great detail about purchases of real estate and representing savings banks and details, but it didn't mention what I would think would have been most significant, the fact that Mr. Grace should have pointed out, namely, that the New York office did 65 percent of their business on FHA applications, and I noticed the letter nowhere says that they are not one of the largest, if not the largest, law firm handling FHA applications.

Don't you think that would have been a pertinent thing to have done?

Mr. KLEINMAN. I have noticed the absence of that information and what you say I believe is argumentative, Mr. Simon. I am not aware that George Grace and Grace & Grace was the largest firm doing FHA matters. As a matter of fact, I have been advised, but I have no opinion to say it so definitely, that they were not by a long shot the largest firm.

Mr. SIMON. Whether they were the largest, or one of the largest, don't you think that information should have been included in addition to the matters that didn't relate to FHA?

Mr. KLEINMAN. This letter was dictated in 1951 and sent in 1951. I was not the author of it. Perhaps in the light of recent events it would have been wise to have listed Mr. George Grace's deals. That was not done.

Permit me to read on. A letter dated December 3, 1951, from Mr. Neville to Mr. Thomas Grace, State director, Federal Housing Administration, New York City.

DEAR MR. GRACE: In connection with your letter of October 25, 1951, and our previous telephone conversation relative to outside activities, there are some additional facts which we wish to secure. (1) Whether your full name appears on the firm stationery of Grace & Grace or on the office door?

(2) What is the extent of your participation in the dividends declared by Grace & Grace?

(3) To what extent did you participate in the buying and selling of real estate and was it purchased for investment or speculation?

(Signed) JAMES F. NEVILLE,
Zone Commissioner.

The reply to that is dated December 6, 1951, from Mr. Grace to Mr. Neville and reads as follows:

DEAR MR. NEVILLE: Answering your letter of December 3, 1951, in reply to my letter of October 25, 1951, I herewith submit to you the additional facts as requested:

1. My name appears on the stationery of Grace & Grace and it also appears on the office door and building register at 26 Court Street, Brooklyn, N. Y., since the date the office was opened with my brother over 25 years ago. It does not appear on the office door or building register of the New York City office at 110 East 42d Street, because this branch office was opened by a younger brother while I was serving as Federal Housing Administration State director.

2. During the years of 1949 and 1950 I received a 25-percent share due to the fact that my father, who had been sick and subsequently died, was residing with me and my brothers decided that the expenses should be equally shared. These were the only dividends received by me since 1938.

3. My participation in buying and selling real estate involved an interest in two pieces of business property, one in Brooklyn and one in Queens, for investment purposes.

(Signed) THOMAS G. GRACE,
State Director.

The next letter is dated December 21, 1951, and was sent by Mr. Neville to Mr. Thomas G. Grace, and reads as follows:

DEAR MR. GRACE: Further reference is made to your letter of December 6 in response to mine of December 3 concerning outside activities.

It is noted that your name appears on the office door of Grace & Grace at 26 Court Street, Brooklyn, N. Y. While we have no objection to the trade name of Grace & Grace remaining on the office door, it has been determined after full consideration that your name should be removed.

I shall appreciate it very much if you will advise me when this has been accomplished.

(Signed) JAMES F. NEVILLE.

The next letter is dated December 26, 1951, from Mr. Grace to Mr. Neville, and is as follows:

DEAR MR. NEVILLE: In reply to your letter of December 21, 1951, I wish to advise you that in accordance with the determination made by the committee, my name has been removed from the office door of Grace & Grace.

(Signed) THOMAS G. GRACE,
State Director.

On a form, which is known as FHA Form No. 843, revised December 1951, which is called a Statement of Outside Activities, Mr. Grace filed such a statement under date of January 9, 1952.

I imagine it will be easier for me to read the whole thing than to leave anything out. It is directed to Director of Personnel. This is a printed form.

I, Thomas G. Grace, employed as State director, have acquainted myself with the policies of the Federal Housing Administration on outside employment and activities contained in the FHA Handbook for Employees, and in accordance with that policy and in consideration of the definitions set forth on the reverse of this form hereby certify that:

I have no other employment or outside activity, except that, I request authorization to engage in, or continue, employment or activity outside of my employment with this Administration as follows:

1. Treasurer of the New York Chapter of the National Foundation for Infantile Paralysis (no salary).

2. Treasurer, Youth United (settlement house work, no salary).
3. Member of the Board of Hewbrew National Orphans Home and other purely philanthropic organizations (no salary).
4. Collection of rents on one piece of real estate having six tenants and owned by me for several years. Payment is made by mail to my home. In no way connected with FHA or on FHA time.
5. The handling of purely personal investments consisting of bonds and mortgages which are serviced by an outside organization for which I pay a service charge. I am not called upon at any time to render any service but must make decisions now and then if a problem arises. In no way connected with FHA or on FHA time.

I do not request authorization to engage in, or continue employment or activity outside of my employment with this Administration except as stated on other side.

However, I feel that reference should be made in this statement to the correspondence between myself and Zone Commissioner James F. Neville, on the subject of outside activities as raised in my letter of October 25, 1951, and the correspondence following that letter bearing dates of December 3, 1951, December 21, 1951, and December 26, 1951. I believe this correspondence is on file in the office of the Director of Personnel and desire that it be made a part of this statement so that in the future those who read may know.

Mr. KLEINMAN. May I call to your attention, Mr. Chairman, those are the letters that I have just read.

Senator BUSH. You will have those photostated and submitted for the record.

Mr. KLEINMAN. Yes.

There is just one more letter, sir, and I will be through. March 26, 1952, Mr. Neville wrote to Mr. Grace in re supplemental policy on outside activity, as follows:

In order to avoid any possible embarrassment to the Administration, the established policy on outside activities is extended to prohibit the use of employees' names by any firm or organization without first obtaining the approval of the Director of Personnel.

This prohibition includes the use of an employee's name on letterheads, business directories, or office doors.

Until the Statement of Outside Activities, FHA Form 843, can be revised to include this policy, it shall be the responsibility of the Director to determine that employees' names are not being used in this way, even though the employees may no longer be actively connected with such firms or organizations.

(Signed) JAMES F. NEVILLE.

Letter from Mr. Grace to Mr. Neville, April 24, 1952, which states:

I have before me a letter dated March 26, 1952, covering supplemental policy on outside activities. This letter states "In order to avoid any possible embarrassment to the Administration, the established policy on outside activities is extended to prohibit the use of employees' names by any firm or organization without first obtaining the approval of the Director of Personnel."

My original letter on this subject dated October 25, 1951, and the subsequent letters between us on the subject together with the execution of Form 834 fully set forth my outside activities and my relationship with the firm of Grace & Grace. Nothing was said in that correspondence about the removal of my name from the stationery of Grace & Grace. If the presence of my name on the firm stationery, where it has been for over 25 years, and the business activities of my brothers might in any way even tend to embarrass the Administration as long as I am employed by the Federal Housing Administration, I would like to be advised in order that there will be no embarrassment to me or the Administration.

(Signed) THOMAS G. GRACE,
State Director.

And the reply from Mr. Neville to Mr. Grace, dated May 21, 1952, reads as follows:

DEAR MR. GRACE: I trust that you will pardon my delay in not replying to your letter of April 24 on outside activities sooner.

It was the intention to include in my letter of December 21, 1951, the request that your name not appear on the stationery as well as the office door, but through inadvertence the reference was omitted. The oversight is regretted and thank you very much for inviting my attention to it.

I shall appreciate it very much if you will advise me when it has been done.

JAMES F. NEVILLE,
Zone Commissioner.

Mr. KLEINMAN. This is the last one, sir, from Mr. Grace to Mr. Neville, dated May 23, 1952.

DEAR MR. NEVILLE: On receipt of your letter of May 21, 1952, concerning the appearance of my name on the stationery of Grace & Grace, I communicated with my brothers advising them of the oversight in your letter of December 21, 1951. The intention being that my name was not to appear on the stationery of Grace & Grace.

I have been advised by them that my name has been removed.

THOMAS GRACE.

Mr. KLEINMAN. Thank you very much. We will give you photostatic copies.

Mr. SIMON. Mr. Grace, one question that occurs to me, a discrepancy in figures. That letter says that you received \$38,000 from your brothers because of your father's illness. The books of the firm show you received \$48,000 and your tax return shows you claim \$6,000 for deduction for your father's illness. Can you explain the difference between the \$6,000 and the \$38,000 and the \$48,000?

Mr. GRACE. The accountant just took—I gave him a list of my entire expenses. The only ones that he allowed on the income tax is the amount he set forth as \$6,000. I didn't claim any in 1949, but then I spoke to him about it in 1950 and he said to give him the list. I gave him the list and he put in \$6,000 of which you said \$4,000. I claimed it all, but I didn't get it.

Mr. SIMON. You claimed \$6,000, you mean?

Mr. GRACE. Yes.

Mr. SIMON. You claimed \$6,000, and the Treasury gave you \$3,750?

Mr. GRACE. I didn't know that.

Mr. SIMON. The other thing: You said in there that your name appeared on the door and the stationery in Brooklyn, and that it did not appear on the door or the building directory in New York.

Mr. GRACE. That is right.

Mr. SIMON. Was there any reason that you didn't tell him that it did appear on the stationery in New York?

Mr. GRACE. It didn't appear on the stationery in New York.

Mr. SIMON. It didn't?

Mr. GRACE. No, sir.

Mr. SIMON. You have right in front of you a photostatic copy of the New York stationery and I would like to have you refresh your recollection and look again.

Mr. GRACE. I don't know if that came from New York or Brooklyn.

Mr. SIMON. If you will look at the stationery it states, "Grace & Grace, 42d Street, New York City."

Mr. GRACE. That purports to be what you say, Mr. Simon. I agree with you.

Mr. SIMON. Is that your brother's signature on it?

Mr. GRACE. Yes, sir.

Mr. SIMON. Is there any doubt in your mind but what that is the stationery of the New York office of Grace & Grace?

Mr. GRACE. That purports to be.

Mr. SIMON. Is there any doubt in your mind that it is?

Mr. GRACE. I haven't any doubt about it. I didn't know about it. I am surprised that they have such a letterhead.

Mr. SIMON. Now, this controversy over your outside interests occurred in December 1951, in January and February 1952. Do you want to make certain that this record shows that there was no connection whatever between these conflict of interests matters in December of 1951 and January and February of 1952, and your resignation in July of 1952?

Mr. GRACE. Definitely, sir.

Mr. SIMON. You say there was no connection at all?

Mr. GRACE. No connection between my resignation. When I called up to advise them that I was going to resign the Administrator said, "Wait until I come up in the next day."

Mr. SIMON. Do you want the record to be clear also that you did not know as early as 1949 FHA had investigated your outside interests, but did not refer the matter to the Department of Justice until 1952?

Mr. GRACE. I got a certificate of "Excellence" subsequent to that time.

Mr. SIMON. Subsequent to 1952?

Mr. KLEINMAN. No; not subsequent to 1952.

Mr. GRACE. Subsequent to 1952 they did away with the issuance of certificates of "Excellence" and put out a new form which was a certificate of "Satisfactory service."

Mr. KLEINMAN. I think Mr. Grace is confused. He left the employ of the Government in July of 1952. We have the certificates he speaks of which cover the years involved up to the time of his resignation.

Senator BUSH. We thank you very much, Mr. Grace, and you are dismissed as a witness. Thank you very much.

The committee will stand in recess until 2 o'clock.

(Whereupon, at 12:30 p. m., the committee recessed until 2 p. m.)

AFTERNOON SESSION

Senator BUSH. The committee will please be in order.

The first witness this afternoon is Mr. Simon Gallet.

Mr. SIMON. Mr. Gallet, would you be sworn, please?

Senator BUSH. Do you solemnly swear that the testimony which you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. GALLET. I do.

TESTIMONY OF SIMON GALLET, PRESIDENT, COORDINATING COUNCIL OF 213 COOPERATIVES

Senator BUSH. Mr. Gallet, will you give your name and proper identification to the clerk?

Mr. GALLET. My name is Simon Gallet. I reside at 16-24 163d Street, Whitestone 57, N. Y.

Senator BUSH. You are president of the Clearview Community Council; is that so?

Mr. GALLET. I am former president. I am president of the Coordinating Council of 213 Cooperatives, an organization which in-

cludes the residents of most of these cooperatives built under section 213 in the city of New York and Westchester County.

Senator BUSH. How would you appraise the size of your organization as to the number of apartment-house owners?

Mr. GALLET. I would say we represent about 15,000 apartment-house owners or about 60,000 residents.

Senator BUSH. In what way do you "represent" them?

Mr. GALLET. In other words, we have an organization where all of these cooperatives participate. We have monthly meetings. We exchange information. We try to solve our own problems.

Last year we were successful in reducing our tax assessment between 11 and 18 percent. This is comprised solely and wholly of people living in section 213 cooperatives. They make their own decisions, their own plan of action.

Senator BUSH. Do they pay dues into your organization?

Mr. GALLET. Yes; they do.

Incidentally, may I say that my position is a nonpaying one and that the organization has been in existence for a year and a half. I have been its president since its inception.

Senator BUSH. How are you able to give so much time to the thing without any compensation? Is this just a sideline with you, or how does that work?

Mr. GALLET. It is the old story, Senator: When you get involved it is like asking a man who is involved in politics, "How do you give so much time to it?" Somehow or other we find the time to the detriment of our families and our profession.

Senator BUSH. You are doing it on the basis of pro bono publico; it is in the general interest.

Mr. GALLET. That is right.

Senator BUSH. As a public service.

Mr. GALLET. Yes; and the help of the people who are living in section 213 cooperatives.

Senator BUSH. Mr. Simon, will you question the witness?

Mr. SIMON. Mr. Gallet, has your group retained an architect to examine some of these projects?

Mr. GALLET. The group hasn't but the individual cooperatives have at our recommendation. I get innumerable calls every day, at my office and at my home. I visit these groups. When they come to me with problems, my first suggestion is that they get an architect to check the plans and specifications and the construction of the building to see if they got what they paid for.

We have found that the inspection by the FHA prior to our moving in was inadequate, incompetent and insufficient. I believe it was on my recommendation, Mr. Simon, that you subpoenaed the records of Mr. Bullitt who has examined about a dozen cooperatives.

Mr. SIMON. He has made reports to these cooperatives on what he found?

Mr. GALLET. That is right.

Mr. SIMON. Are you also acquainted with the problems that the cooperative owners have had in trying to get possession of their corporation before FHA approves the construction contract?

Mr. GALLET. Definitely. As a matter of fact, as an attorney I represented the stockholders group for Knolls section 2 where I was compelled to go to court to get an injunction to stop the builder from

getting paid until an election was held by the stockholders to elect their own board of directors.

Mr. SIMON. Do you know whether in most of the section 213 cooperatives built in New York the owners end up owning only a piece of the building and never get to own the real estate, the land under the building?

Mr. GALLET. You are talking about cooperatives?

Mr. SIMON. Yes.

Mr. GALLET. I think I can make the categorical statement that the land which is improved with these cooperative buildings belongs to the builder and that the only thing that a cooperator owns in a section 213 cooperative is a share or shares of stock in a corporation which has a 99-year lease on buildings built with their money.

Mr. SIMON. After they have paid off the mortgage 33 years hence?

Mr. GALLET. Forty years.

Mr. SIMON. Forty years. They still have to continue to pay ground rent to the owner of the land under the building for as long as the building is there; is that right?

Mr. GALLET. Actually the terms of the lease give the cooperative a 99-year lease, and then can renew it for another 99 years.

Mr. SIMON. But they never become the owners of the land?

Mr. GALLET. Nor the building.

Mr. SIMON. They have to pay rent to the owner of the land, don't they?

Mr. GALLET. That is right.

Mr. SIMON. Do you know how that rent is computed?

Mr. GALLET. Yes.

Mr. SIMON. Is it based on the FHA valuation of the land?

Mr. GALLET. It is, and it is a very generous valuation because it is not based on what the builder paid for the land but what the land is worth after it is improved with money supplied by the cooperators and, in many instances that has been as high as 350 percent over and above what the builder paid for the land.

Mr. SIMON. A man can buy a piece of farmland and pay so much an acre for it, and then FHA values it as improved rental real estate and gives him a valuation based upon the improvement which the cooperators pay for?

Mr. GALLET. That is right.

Mr. SIMON. And then he gets a rental income for 99 years or 198 years based on the valuation created by the FHA mortgage and the cooperators' money?

Mr. GALLET. That is a correct statement.

Mr. SIMON. Could you explain to the committee, Mr. Gallet, what has been the experience of your group, first in trying to get possession of these buildings before the construction contract and the construction work is approved; and secondly what the architects have found in inspecting the buildings after you did get possession of them?

Mr. GALLET. Yes. I can give you a very graphic example. Going back to section 2, Knolls Cooperative, located in the Bronx—they have a stockholders' committee, an annual meeting of stockholders at which time the stockholders have been permitted to elect their own board of directors, and it was 8 or 9 months overdue.

Mr. SIMON. What do you mean by "overdue"?

Mr. GALLEY. In other words, there is supposed to be an annual meeting of stockholders. The annual meeting had not been called, and it should have been called 9 months previous to the time, and we had to go to court to get an election.

Mr. SIMON. Just to get that into focus, I take it what you are saying is that when the project is first started, the builder creates the cooperative-housing project.

Mr. GALLEY. No question about it.

Mr. SIMON. His "straw" people are the officers and the directors.

Mr. GALLEY. We call them the dummy board of directors.

Mr. SIMON. And ultimately, after the cooperators take possession of the property, they elect their own board of directors and their own officers.

Mr. GALLEY. That is correct.

Mr. SIMON. I take it what you are addressing yourself to now is the fact that the builder's dummy board of directors continues in possession of the corporation and as officers of the corporation until after they have approved the construction work which their boss, so to speak, has done?

Mr. GALLEY. That is correct. Many times the builder himself is on the board of directors.

We argued the motion for an injunction, to stop these dummy directors and the bank from making final payment to the builder. The attorney for the cooperative, who is also a partner in the construction company, made the statement in court, "Judge, the reason this board of directors is still in control is because the FHA wants it that way."

Subsequently, when a meeting was called pursuant to court order and the question was raised about the people in the cooperative wanting to throw out the builder's board of directors, and with members of the FHA sitting on the platform, the same attorney made the statement that "The reason we are in control and want to stay in control is because the FHA wants it that way." And there was no denial.

As a matter of fact, gentlemen, in my brief I show some of the ways in which the FHA has taken steps to keep this dummy board of directors in control.

Senator BUSH. Why do you suppose they want to do that?

Mr. GALLEY. I don't know. The reason that they have advanced has been proven absolutely not so. In other words, their concern was that if the cooperators got control of the corporate funds and one of the members of the board of directors didn't like the way the construction was going, although he was a construction expert, he might withhold payment, there would be a default and, therefore, the FHA would have to foreclose on an unfinished project.

My answer to that is that we took control of the board of directors prior to the conclusion of construction; we hired an independent architect. When payment was due we turned to him and said, "Mr. Bullock, do we pay this; is the job done?" He said, "Yes," and we paid it.

If the project was completed on time the builder had no trouble, if the cooperators got in when they were supposed to. They got in early enough so that they could prevent an increase in carrying charges for 2 or 3 years.

It absolutely refutes the theory that has been advanced by the FHA that the cooperators, who are intelligent people, are not competent enough to handle their own funds.

Senator BUSH. You are speaking there of a specific project that was handled in that way?

Mr. GALLET. That is right.

Senator BUSH. What was that?

Mr. GALLET. That was Edgebrook located in Greenburg, Westchester County.

Senator BUSH. Has that been a satisfactory operation so far?

Mr. GALLET. Yes; it has. They just moved in July 1.

Mr. SIMON. Mr. Gallet, this morning William McKenna, who is now the Deputy Administrator of the Housing and Home Finance Agency, testified that one of the reasons the cooperators had fared so badly is that the architect was the employee of the builder and not the employee of the cooperators. Do you think that there would have been a more satisfactory result if the architect had been responsible to the cooperators and not to the builder?

Mr. GALLET. Unquestionably. As I said before, we proved it in Edgebrook.

Mr. HOGUE. Can you tell us at what stage of the situation you think that the cooperators should come into control of the cooperative corporation?

Mr. GALLET. The sooner the better. In other words, particularly before contracts are entered into.

Mr. HOGUE. In other words, if I understand what you mean it is that at the present time the contract is entered into by the contractors with themselves, is that correct?

Mr. GALLET. Exactly. In other words, at the time the construction contract is entered into there is no competitive bid. Within the general requirements of the FHA, any figure that the contractor names is approved. Any figure, an inflated figure on the ground rent, is approved because no one raises the question.

In Edgebrook, sticking to that example, if you take the figure of the actual construction contract and the actual figures of the mortgage, you will find that instead of being 95 percent mortgage, there is a 98-percent mortgage, which means that the cooperators for 40 years will have to pay an additional amortization and interest on this inflated mortgage.

Mr. HOGUE. Is what you are saying that the contract, if it is a lump-sum construction contract, is substantially lower than the amount of the contract?

Mr. GALLET. No. What I am saying is this, and if you will let me give you some figures it will be much easier.

In Edgebrook the estimated replacement cost by the FHA was \$2,133,724. The amount which the builder agreed to construct the project for was \$1,775,620. Mind you, gentlemen, this is without competitive bidding. That leaves a difference of \$358,104 that a builder can play with, if he can get a large enough down payment from the public.

However, when the mortgage is fixed it is not fixed on the actual construction contract but on the FHA estimated figures. They are much higher. This high mortgage makes it so much more difficult for a cooperative to carry it and meet the carrying charges.

Mr. SIMON. Would you go ahead and tell us what the architect's—

Mr. GALLET. Offhand I can tell you that the independent architects—and you have the reports, Mr. Simon—in Clearview Gardens showed that the difference between what the cooperative got and what the plans called for, including defects and variations, amounted to over a million dollars.

Mr. SIMON. You mean by that it would cost \$1 million to restore the property to the condition the plans call for?

Mr. GALLET. That is correct.

Senator BUSH. How big a proposition was this?

Mr. GALLET. That is 1,788 families.

Senator BUSH. How big in dollars was that?

Mr. GALLET. A \$17 million project.

In Deepdale, which is slightly smaller, there they have about 1,400 residents, the amount of defects was about the same, about \$1 million.

Taking you to some of the smaller developments, in Lincoln and Brooklyn, 288 families. The architect found over \$130,000.

In White Oaks in New Rochelle, 160 families, the architect found a difference of about \$107,000. These are just examples.

Mr. SIMON. Where is Clearview?

Mr. GALLET. Located in Whitestone, Queens. Incidentally, I live there.

Mr. SIMON. Where is Deepdale Gardens?

Mr. GALLET. In Little Neck, which is a few miles away. It is also in the Borough of Queens.

Mr. SIMON. White Oaks?

Mr. GALLET. White Oaks is located in New Rochelle.

Mr. SIMON. I think you did tell us where Edgebrook was located.

Mr. GALLET. That is in Greenburg, Westchester County. Lincoln Cooperative is in Brooklyn.

Mr. SIMON. Are there any of these projects, Mr. Gallet, where the architect tore down a wall to see whether the construction of the wall was in accordance with the specifications?

Mr. GALLET. Yes, that was in Clearview. That was the result of my receiving a phone call from two bricklayers who were working at Clearview at the time we were involved in a bitter fight I was leading to oust the builder's board of directors.

They stated that in erecting the project wall ties had been left out. When you build brick veneer buildings of 1 or 2 stories, it means one layer of brick. What you do is you have angle irons to keep the brick to the wall.

When I was told about this I confronted the builder with the information. He said, "That is not so," and he said that these two people were cranks, that they had been fired because they had been disrupting the job, and he stood behind the job, we could take his word for it.

We took his word for it and opened up the walls and found no wall ties, or very little, depending upon which section of the building it was. That was in Mr. Bullock's report.

Mr. SIMON. Can you tell us any other matters that the architect called to your attention?

Mr. GALLEY. That about does it except for, as I said before, details which you have reports on, which would take days to go into, because each one is that thick.

Mr. SIMON. Mr. Gallet, do you think the FHA misled any of the prospective cooperators or permitted the builders to mislead them in selling them apartments?

Mr. GALLEY. I would say this, that when we bought our apartments, since the information was very meager that was given to us, most of us bought in reliance that we would be protected by the FHA, a Government agency. There is no question that we have been let down and let down badly.

Mr. SIMON. Did the average cooperator know that all he was buying was an interest in a leasehold and he would never get to own the land?

Mr. GALLEY. No.

Mr. SIMON. Do you think that most of them believed that they were buying an interest in the building and the land?

Mr. GALLEY. That is my interpretation—that you, the cooperator, own the building and you own the land.

Mr. SIMON. Was there any different treatment by FHA in these processing applications of the operating expense of a section 213 compared to the operating expense of a section 608?

Mr. GALLEY. I am not familiar with the section 608's, but I will tell you this—and this can be borne out by a whole sheaf of figures that I have—that in setting the estimated monthly carrying charge or rent the FHA and the builder got together and overestimated the income and underestimated the expenses.

It is my opinion that the reason this was done was not to give us a true picture, but to make it more palatable to sell the apartments.

Every single cooperative, gentlemen, starts to operate at a deficit from the day the people take over. I am not talking about the normal increase in expenditures which takes place over a period of 2 years, because it takes that long to construct the project.

The figures arrived at in the project analysis are unreal and inapplicable. The only time a cooperator does not get an immediate increase in carrying charges is if the cooperator is fortunate enough to occupy at a time before the amortization payments start and the real estate taxes start. There they keep collecting this money and they have this cash cushion to hold off any raise.

If you take the actual income against actual expenses, every cooperative is operating at a deficit from the day they walk in. To give you a very graphic example, the largest single expense that a cooperative has is the payment of real estate taxes. In the city of New York the estimated valuation, or the figure upon which the tax rate is applied was estimated as low as 40 percent over what was actually placed on the books by the tax commission.

Last year, as I mentioned before, under the leadership of the coordinating council, the cooperatives got together and reduced the taxes between 11 and 18 percent. The entire tax commission of the city of New York, and particularly the president, William Boylan, said that no one, neither the builder nor an official of the FHA, had ever come to them and said, "Look, we are setting up an estimated tax valuation on this property. What should be a correct estimate?"

There was no cooperation, there was no liaison between the tax commission, the FHA, and the builder.

Senator BUSH. Do you think that the FHA deliberately cooperated with the builder in underestimating those things or permitting him to underestimate them?

Mr. GALLET. Let me give you a very excellent example. When I met with the builder in the Lincoln Cooperative, I said, "Now, you are a builder, you know the value of the land, you know the value of apartments. On the income that this cooperative that you have built is now getting, would you buy this development?" He said, "No."

I said, "Where did you get these figures?" He said, "Well, I will have to call for my processor." He called a gentleman in. I said, "Where did these figures come from?" He said, "Off the record, this is how it happens. The FHA gives us a list of figures that they will approve. The president of the building board of directors signs that as the estimated carrying charge, and then they send it back to the FHA, and that is how it is set."

There is teamwork between the FHA and the builder in setting up this underestimation of carrying charges.

Senator BUSH. I still am not clear as to whether you think that the FHA deliberately participated in underestimating these charges.

Mr. GALLET. That is my opinion.

Senator BUSH. That is your opinion?

Mr. GALLET. Definitely. Not only my opinion but of others.

Senator BUSH. They knew that they were cooperating in a move to deceive the prospective owner?

Mr. GALLET. Let me go even further. After the board of directors took over—I mean the cooperative's board of directors—a question was asked, "How did you arrive at these low labor charges?" The answer was given to me. "We took an overall national estimate and didn't take into consideration that in the city of New York there were labor unions."

Mr. SIMON. As a result of that a prospective buyer was misled into thinking that the carrying charges would be less than they actually turn out to be?

Mr. GALLET. No question about that.

Mr. SIMON. Do you suppose the purpose of that was to help the builder sell more cooperative apartments?

Mr. GALLET. Absolutely.

Mr. SIMON. I believe there is some more material on that statement that you have not given us.

Mr. GALLET. Yes. I think if I gave it all to you it might be helpful for I have been eating and sleeping this thing for 2½ years. The more I go into it the more fantastic it sounds. Let me give you the picture and you will hear it and believe it.

Senator BUSH. That is what we want to hear.

Mr. GALLET. I have given you some of the background. I have given out I don't know how many copies of this, to Senator Capehart, Mr. Simon. If you care to have a copy—

Senator BUSH. Yes; I will be glad to have it.

Mr. GALLET. Section 213 was added to title II of the National Housing Act by Public Law 475 and approved April 20, 1950. Two prime purposes of the act was to provide cooperative housing for veterans of the middle-income group, and to eliminate the speculative profits of builders. The actual mechanics of bringing these housing developments into being are set forth in a series of administrative rules and

regulations promulgated by the Federal Housing Administration. Under these rules and regulations the builders, with the FHA's assistance, have found a worthy successor to section 608 housing projects.

In outline this is how a "213" project comes into being: The builder, or sponsor as he is called by the FHA, secures an interest in or buys a parcel of marginal land. We lawyers have a fancy word for "cheap." We call it "modern." If you will check on the land upon which these cooperatives are built you will find they were begging for buyers a long, long time ago.

The builder then secures approval from the FHA that this land is a satisfactory site for the construction. If I may digress a moment, Senator, I have never been able to find out what the formula is that a site is "satisfactory." In innumerable cooperatives, including the one in which I live, transportation is bad; there is no shopping place until the builder builds it. The stores and the schools are overcrowded. But it is approved. What formula they use I do not know.

Senator BUSH. And yet they have some responsibility, do they not, in connection with approving such sites, so that they don't overburden a community and things like that?

Mr. GALLET. Yes.

Senator BUSH. In other words, if the community facilities are going to be adequate to service that new population, is that right?

Mr. GALLET. Not only that but they have gone even further. At the time the builder planned his development of 1,800 families, about 7,000 people, he was supposed to give a piece of land to the city to build a school.

Two years later I had to appear before the board of estimates and fight the owner of the land so that the city should condemn that land, because what the builder did was to give away land that didn't belong to him. He had a small parcel but not enough. We are still waiting for that school to be built.

I have been living in this cooperative for 21½ years. Others are living there even longer. They have double sessions in the schools. Our children are going to 4 or 5 different schools because this school has not yet been built.

Plans and specifications are drawn and an FHA project analysis is completed, which includes, among other things, the estimated cost of constructing the cooperative. I have already given the example so I won't go into that.

Then there is the period of time the ground lease will run and the amount of ground rent the cooperative will pay under this lease. As has been mentioned before, the first step in the building of a section 213 cooperative is the builder acquiring a marginal parcel of land.

A check of a majority of the cooperatives in New York City and Westchester will reveal that the land upon which the buildings were erected had been vacant for many years and was purchased for a comparatively cheap price. This land is never sold to the cooperative. It is leased to the cooperative for a period of 99 years with an option to renew for a similar period. Under the terms of the lease, the builder also owns all the improvements, appurtenances, and fixtures attached to the land. So the builder not only retains title to the land, he also becomes the owner of the buildings and improvements which were constructed with the cooperative's money.

Senator BUSH. Under the law the builder could turn over the fee in the land to this cooperative project, could he not?

Mr. GALLET. There is nothing to prevent it.

Senator BUSH. You say it never happens.

Mr. GALLET. And it will not happen.

Senator BUSH. They always retain a leasehold.

Mr. GALLET. That is right, and by operation of law, under the leasehold to the owner of the land belongs the buildings.

Senator BUSH. Yes; but the advantage of that to the builder is that he gets a big writeup in the value of that land which he has leased and therefore he gets a continuing return from that rental.

Mr. GALLET. That is right.

Senator BUSH. Which is all out of proportion to the investment which he puts into it.

Mr. GALLET. That is true, Senator.

Not only that but they have played some fancy tricks with the land. In other words, once the FHA has put this inflated value on it, the builder in many cases operated in two ways: (1) He has mortgaged the land out before construction and used the money to operate in the building of the cooperative, or (2) after the project is completed, he mortgages the land on the improved value and gets back a lot more than he put into the land, and then assigns the ground rent to cover the mortgage.

They tried something cute but they didn't get away with it. They then turned around to the Internal Revenue and said, "Look, we don't have to pay taxes on the land; also we are entitled to deduct the interest that we are paying on the mortgage." The last information I got was that they didn't get away with it.

The amount to be paid for the use of the land results in a handsome profit to the builder. We have gone through all of that. In other words, there are times when the FHA appraised the land at as much as 350 percent over and above what the builder paid for it.

In figuring that out, the builder would have his money back in 10 years just from the ground rent alone.

Mr. SIMON. I think you are being modest. There are cases where it is 6 and 8 times what he paid for it.

Mr. GALLET. If I had your access to files I could make a more definite statement.

It must be kept in mind that this ground rent is net rent. In other words, this is free and clear to the builder. The cooperative has the expenses on the land and the building as if they themselves owned them. Whether the income goes up or down, the expenses go up or down, the builder gets his ground rent.

We pay taxes, we pay for repairs, for assessments, we have all the obligations of an owner without owning it.

Senator BUSH. Actually, has the builder got any money left in that leasehold? Hasn't he bailed himself out with a profit over and above what he put into it in the first instance?

Mr. GALLET. You caught on very fast, Senator. That is exactly what it is.

Senator BUSH. This is not the first day I have been in it, but I thank you for the compliment.

The point is, and I think it is a very interesting one, that while he might put \$200,000 into the land and it might be appraised and go into the project at \$1 million, he gets out that \$1 million which reimburses him for the \$200,000, and he has got an \$800,000 profit.

Mr. GALLET. You are using both figures, but that is it. As Mr. Simon says, it goes probably to 6 or 8 times higher.

Senator BUSH. From then on he gets his rental based on \$1 million which he does not have in it.

Mr. GALLET. That is right.

Mr. SIMON. Isn't it true that he can secure a mortgage to approximately 90 percent of the higher value, appraised value?

Mr. GALLET. In mortgaging the land he gets back a lot more than it cost him because now you have sidewalks and sewers and a building and everything else on there and the ground rent which is assigned to the mortgagee or to the bank.

Then there is the maximum amount which the FHA will permit the cooperative to borrow from a lending institution to finance the construction of the project. There I also show you in Edgebrook that instead of it being 95 percent it is 98 percent of the construction cost.

Since the building contract is entered into without competitive bidding on a lump-sum basis, I do not think we are stretching our imagination too far to say that the project is built with the mortgage money.

Then there is the estimated income and expenses. This, Senator, is the thing that really hits home to us. This is the thing that has whacked everybody in the pocketbook and has made it difficult for the people for whom these developments were built to live in there or to continue to live there.

They have to take money from the necessities to meet these increased charges. In other words, the public is given an estimated monthly carrying charge equivalent to rent which the individual stockholder will pay for his apartment. Invariably these carrying charges are underestimated from 10 to 20 percent. Every cooperative operates at a deficit from the day of occupancy, from the day occupancy begins, if the real estate taxes and the amortization of the mortgage have to be paid immediately.

Senator BUSH. Where are you on this prepared statement you handed me?

Mr. GALLET. I am slightly above the middle of page 2.

The cooperatives who secure possession prior to the date amortization payments on the mortgage and real estate taxes become due are able to stave off a carrying charge increase temporarily with the moneys accumulated during the nonpayment of these charges.

In Knolls Cooperative, section 2, Bronx, N. Y., the stockholders were increased 15 percent immediately on occupancy. In Lincoln Cooperative, Brooklyn, a 20-percent increase was instituted 6 months after occupancy. Only by members of the board of directors going from door to door and renting garage space was this increase reduced to 15 percent.

In White Oaks Cooperative the occupants are paying an additional 10 percent, with another increase of the same amount anticipated. In Northridge Cooperative, the cooperators are paying 18 percent more than the original monthly carrying charge. In Clearview, 18 percent more.

This is a result of an overestimation of income and an underestimation of expenses.

Every project analysis lists as income full rental from garages. In the Lincoln Cooperative in Brooklyn the FHA estimated a full rental on 194 cars. The cooperators, together with their managing agent, physically went in and checked the amount of rental space. Unless they hired attendants to move the cars around, the maximum number of cars that could get into the garage was 145. If they hired attendants to move these cars around it wouldn't pay them to operate it at all.

Senator BUSH. An overestimation of 50 cars.

Mr. GALLET. That is right. Also provided they are all rented and occupied.

In many projects where the cooperators took possession, this source of revenue was far below the estimate, and it was later discovered that the builder in selling the apartments made no special effort to rent the garage space.

The numbers of employees and their salaries were underestimated. Corporate franchise taxes were omitted. Legal and accounting fees were placed at exceedingly low figures.

The most flagrant underestimation was the real estate taxes, the largest single expense the cooperatives would pay. I went into that underestimation, so I will not repeat it.

Since the people who occupied the apartments in 1951 and the shareholders who received possession in 1954 find the same pattern of deficit operation, it is difficult to avoid arriving at the conclusion that the FHA and the builders joined hands and gave the public a monthly carrying charge which would sell apartments rather than a true picture of operating cost of the cooperative. These low estimates coupled with the normal rise in expenses which is affecting all real estate property today is causing terrible hardship in the middle income veteran cooperator and is slowly forcing him to sell his apartment.

Senator BUSH. Just stop there a minute, will you. Mr. Gallet, have you considered at any time taking action against any of these promoters who apparently deliberately misrepresented these pertinent facts in the sale of these cooperatives to people? Have you considered taking any legal action against them?

Mr. GALLET. Legal action has been taken, Senator, in several cases and many others are planning to do the same thing. In Clearview Gardens where I live, because of the interlocking boards of directors and the interlocking interests there is now pending a \$5 million lawsuit because of these facts. There is a lawsuit of above \$1 million pending because of construction defects.

Mitchell Gardens, section 3 there is a \$2 million lawsuit pending for the same reason. Knolls section 1 and Northridge and many other cooperatives are now following suit.

Senator BUSH. Against the promoters.

Mr. GALLET. Yes. There are dummy boards of directors. In some cases the same attorney represented both sides.

Senator BUSH. Do counsel who are handling these cases feel that they have a good claim, a good case against these people or not?

Mr. GALLEY. Since they are handling it on a contingency basis, I am sure they feel they have a good case. No fees are paid unless they are successful.

A commitment of insurance is issued by the FHA to the bank, the sponsor (builder) and the cooperative, certifying that it will insure the mortgage and up to what amount. The builder then proceeds to sell shares of stock in the cooperative to the public. Some of the facts concealed from the prospective purchaser are:

1. That all the future cooperators will ever own is shares of stock in a corporation having a 99-year lease on land and buildings improved and built with his own down payment and mortgage money.

2. That after paying off a 40-year mortgage, he will own no more in the cooperative than when he first purchased his stock.

3. That he must inevitably expect an average 15 percent increase in his monthly carrying charges because of unrealistic estimation of income and expenses.

When 90 percent of the apartments are sold, a date is set at which time a construction contract is entered into, the mortgage and building loan agreement are executed and the ground lease between the builder and the cooperative is consummated.

Mr. SIMON. They don't sign the building contract until after 90 percent of the apartments are sold.

Mr. GALLEY. Right. The reason for that, Mr. Simon, is that the FHA will not approve of the initial closing until 90 percent of the apartments are sold, and 65 percent of this 90 percent are veterans.

Senator BUSH. So you have at least 90 percent of the future owners of the building signed up before they ever enter into the construction contract?

Mr. GALLEY. Right.

Senator BUSH. What reason would there be why those people can't make their own construction contract?

Mr. GALLEY. None, except this: You try to get a stockholders' list from a builder. Also remember this, that these things are now developing because we so-called old timers, who have been living there for 2½ years, have been giving this information to other stockholders. Normally a stockholder does not know.

Senator BUSH. It seems to me that as long as the stockholders are all signed up before they even enter into a building construction contract and since they are paying the money, that they ought to be permitted to decide what terms they want to agree to rather than have some one else agree to it for them.

Mr. GALLEY. That is right. That shows you why the sooner the better, when I was asked how soon should the cooperators take over.

In all these transactions, with the approval and consent of the FHA, the cooperative is represented by a board of directors composed of the builder and/or his business associates, attorneys, friends, appointees, or designees.

The only legal advice this board gets is from the builder's attorney. There is no competitive bidding on the building contract. The amount agreed upon is fixed by the contractor subject to the generous estimates established by the FHA.

No question is raised as to the large amount of the mortgage in comparison to the construction contract. No voice objects to the exorbitant ground rent which will be paid.

A graphic example of interlocking interests as pictured above can be found in Knolls Cooperative, Section 2. Immediately before the stockholders elected to the board of directors people who would become residents of Knolls Cooperative, Section 2, the board was composed of the following individuals:

Robert S. Olnick, who was the secretary of, and attorney for the cooperative corporation, a partner in the construction company which was erecting Knolls Cooperative, Section 2, the attorney whose name appears on the back of the certificate of partnership of the construction contractor filed in the New York County clerk's office. His name also appears as attorney in the acquisition of the land upon which the project was built and leased to the cooperative.

Also John L. Hennessey, president of the cooperative, a partner in the construction company, a member of the firm of John L. Hennessey Co., the agent for the builder in selling stock in this development to the public.

Lawrence Rauner, treasurer of the cooperative and the individual who represented John L. Hennessey Co. at the site of Knolls Cooperative, Section 2.

Frederick Dreier, a relative of Abraham Dreier, who was a partner in the construction company.

The fifth person on this board was never elected by the stockholders who eventually occupied the development.

When an action was brought to compel this board of directors to call the annual meeting of stockholders, which was 8 months overdue, at which meeting the shareholders could elect directors of their own choosing, the attorney who appeared in opposition to the stockholders' position was Robert S. Olnick.

As a result of this type of interrelated interests, Clearview Gardens, Queens, N. Y., has instituted a lawsuit for \$5 million; Mitchell Gardens, Section 3, Queens, N. Y., \$2 million; Knolls Cooperative, Section 1, and Northridge have also commenced action, and many others are contemplating doing the same in the near future.

I would like to pause at this time, Senator, for it is not in the brief, to say that not in this particular building corporation, but as a general pattern the board of directors milk the corporation as much as they could. As the board of directors they have the power to hand out service contracts. There is the laundry contract which was handed out at a maximum commission.

After the cooperatives took possession, many of these contracts were reduced. The oil that was purchased was purchased at an excessive price.

Let me give you an example. In Clearview Gardens where I live, the builder's board of directors entered into a contract to purchase oil for 28 cents a barrel over the harbor price. In other words, the oil comes to the dock, and then a certain amount is added.

When the year expired we had our own managing agent and he said the only way to buy oil is to secure a dozen bids, sealed, and let the board of directors open them and take the lowest bid, taking into consideration service and everything else.

On the same day that this oil company delivered at 28 cents, we received a bid of 21 cents. We eventually got a contract for 18½ cents.

The fire insurance is inflated. In other words, instead of taking the replacement cost of the buildings, they take the estimate that the FHA gives. The fire-insurance contract, therefore, covers the excavation, the builder's profit, the architect's fee, the organizational fees—that is all included in the FHA estimate.

Senator BUSH. And the leasehold?

Mr. GALLET. Well, no.

Senator BUSH. That is excluded.

Mr. GALLET. That is right.

Now in placing these fire-insurance policies the prime purpose seems to be not to get an insurance company that will give the best rate to the cooperative but the insurance company that will pay the largest commission.

After taking over ourselves, just by renegotiation and going down to the bank and the FHA and showing that it is 'way over, a compromise has been effected and the insurance has been reduced. When you are placing insurance of two, three, and four million dollars, it is a substantial piece of money.

Now construction commences and as the building progresses the builder is given interim payments. Before each payment, an architect, brought into the picture by the builder, an FHA inspector, and the builder's board of directors certify that the construction contractor is entitled to the money requested.

From each payment 10 percent is withheld until the closing date or "finaling out" time, as it is called in a section 213 transaction. At that time the builder receives his last check less any escrows set by the FHA for incomplete work. No funds are withheld for defective work since the probuilder board of directors and the FHA inspector give their approval that the job has been completed according to the plans and specifications.

Once the builder is paid, his dominated board of directors resigns and a meeting of the cooperators is held and new directors who live in the cooperative are elected.

May I stop at this point and say that it is my experience—and I have conferred with at least 20 cooperators—that in 99 percent of the cases the people who serve on the builder's board of directors never occupy an apartment in the cooperative.

Within a short period of time after the stockholders take control they discover that the FHA inspection has been inadequate and insufficient, and not only do serious construction defects exist but here are many omissions and deviations from the plans and specifications.

In Lincoln Cooperative, Brooklyn, within a few months after possession of the apartments were acquired, it was discovered that all the roofs leaked and the outside walls were improperly waterproofed.

In White Oaks Cooperative, New Rochelle, where the shareholders moved in during September 1953, a letter was received from the mortgagee dated May 24, 1954, requesting that the water seepage coming through the garage walls and floors in two of the buildings be eliminated.

In Knolls Cooperative, section 1, the residents of the 24 apartments on the top floor went through their first winter with inadequate heat because of improper installation of the steam heating system.

Here again, Senator, I would like to stop because we had a very fortunate situation. The heating engineer who designed the heat-

ing system to go into the Knolls, section 1, moved into Knolls, section 2, which is built right next to it. He looked at the installation and said it was not installed according to plans and specifications. He wrote a letter to that effect to the board of directors of Knolls, section 1.

Mr. KENNEY. Were these matters called to the attention of the FHA?

Mr. GALLET. Oh, yes.

Mr. KENNEY. What did they do about it?

Mr. GALLET. Let me explain the position of the FHA. When stockholders come to the FHA and say, "Look, this has happened, so and so has happened," they say, "We are only an insurer of the mortgage." What the FHA does is to send a letter to the bank and the bank will send a letter to the cooperative and to the builder.

Once it is finaled-out and the cooperator takes over, the FHA changes position from a supervisor to an insurer, and from there on it is your baby.

Senator BUSH. They have literally nothing to do with the project after that point, do they?

Mr. GALLET. That is right, except that you have got to meet your carrying charges and they reserve the right that you comply with certain rules and regulations, keep the books in a certain manner, and get their permission before you can increase the carrying charges.

Incidentally, this is very interesting. Today when a cooperator takes possession and the board of directors, whether it be the builder's board of directors or the cooperators' board of directors, before they get possession they must show to the FHA that their underestimated carrying charges are sufficient to carry the cooperative. If they are not, you must raise your carrying charges immediately.

Senator BUSH. Just a moment there. Has your study of this business led you to any opinion as to whether FHA employs an adequate inspection service during the process of building, during the construction of the apartment house? Do you think that some of these irregularities, some of these deficiencies in the quality of the building might be due to a lack of proper inspection on the part of the FHA?

Mr. GALLET. Definitely.

Senator BUSH. You do?

Mr. GALLET. Definitely. The architects' reports prove that. The FHA has men assigned to projects. In other words, they will have an inspector who must be on the job.

Senator BUSH. The FHA has said in testimony before this committee that they have felt themselves for sometime that they have not had adequate appropriation for inspectors, that they have had a real deficit in inspection service. They have been troubled about that.

I wonder if you confirm the fact that they were inadequate in their inspections?

Mr. GALLET. They were inadequate in their inspections. However, if they have one inspector for three jobs, at the time the inspector is on a particular job he should see that the job is built right. Whether he has to cover three jobs or not, he is certifying that this job is properly done.

I have never heard of an inspector saying, "I approved this but I didn't have enough time." He certifies it as complete and that payment is to be made. I frankly can't buy that, Senator.

Senator BUSH. You feel in the instances you are familiar with that it is not just a lack of sufficient inspector service but it is the faulty inspection service?

Mr. GALLET. That is correct.

Mr. KENNEY. Do you go so far as to say that there may be collusion between the inspector and the builder?

Mr. GALLET. I would say the facts speak for themselves. If you can come up on a \$17 million development with \$1 million of defects, omissions, taking the example of Clearview—Mr. Simon's question—how could a wall go up without wall ties in an 1,888 family development?

Incidentally, we just didn't open one wall. We went from corporation to corporation and found either insufficient or no wall ties. That does not happen by accident.

Senator BUSH. Do you feel that there had been any collusion of an improper nature between the builder and the inspectors?

Mr. GALLET. The facts seem to infer it.

Senator BUSH. Well, I am not asking you about inference. I am asking whether you really have any information which would indicate to you that perhaps the inspectors have been suborned by the builders?

Mr. GALLET. I haven't any direct information.

Senator BUSH. And that they have been persuaded in one way or another not to do their duty thoroughly; have you any evidence of that kind?

Mr. GALLET. I have no direct evidence of that kind.

Senator BUSH. Thank you.

Mr. GALLET. Now this cooperative, Knolls section 1, was compelled to buy 2 electric heaters for each apartment and to weatherstrip 24 doors. The hammering of the pipes became so strong that the insurance on these pipes was canceled. Seventy hundred and fifty dollars has been paid to a firm of heating engineers to find the cause and to eliminate this condition.

Architects have been retained by various developments to ascertain whether its individual project was built according to plans and specifications. I have gone through that and have also stated some of the amounts.

Despite the guaranty in the specifications against defects which appear within 1 year after completion, and a personal indemnity by the builder for 2 years in an amount up to 10 percent of the estimated replacement cost of the cooperative, little satisfaction has been received from the builders when requested to make corrections or restitution based on the architect's report.

The result is that the cooperative has been compelled to make repairs themselves with the money coming from the pockets of the stockholders. Lawsuits now being brought as a result of defects, omissions, changes, and variations will cause additional expense to these projects.

Senator BUSH. Have you ever talked with any FHA inspectors that worked on these buildings?

Mr. GALLET. No.

Senator BUSH. You have never talked with them?

Mr. GALLET. No; they have no dealings with me.

Senator BUSH. I understand that, but I am wondering whether your activity, which has been quite intense in this, has ever led you into any conversation with any of these inspectors.

Mr. GALLET. For a long time the FHA didn't look too kindly upon me. I gave this information to the press and the people a long time ago.

Mr. KENNEY. Do you know during construction of any of these projects whether or not the inspector ever raised very many objections to the construction?

Mr. GALLET. I don't know, but that can be found in the inspectors' reports, because they have to O. K. the payment when the project is ready for occupancy.

Senator BUSH. Go ahead.

Mr. GALLET. The people in the Lincoln cooperative have just discovered something which is fantastic. In the Lincoln cooperative, streets were paved. Now, in the city of New York, before you can pave streets you must get the approval of the borough president's office of the particular borough in which the streets are being paved. In this case it is Brooklyn.

Recently, by some accident, but having reason to check with the borough president's office, we found that the builder of the Lincoln cooperative applied for permission to pave the streets in connection with the erection of this project. He was turned down because they didn't meet with the approval of the particular department.

He went ahead and paved them anyhow. Today, if the city of New York should come in—and they are aware of the fact that he paved those streets without their permission—and found they were not paved the way they should be, and if they are repaved, this cooperator would be subjected to assessment.

Yet this development was approved by the FHA and payment was given to the builder.

At the finaling-out, which usually takes place in the offices of the FHA, the mortgage transaction is completed and the builders are paid the balance of their money less certain escrow funds. At this closing, except in the few instances where cooperators have been able to gain control of the board of directors, no one truly interested in the cooperative is there to protect the stockholder.

In one of the closings where a development was represented by directors who were elected from the residents of the development, Clearview Gardens 3d Corp., the FHA had set an escrow sum of approximately \$26,000 based on its inspectors' findings. The cooperative produced an architect's report which would have required an escrow on the part of the builder totaling \$180,000.

The FHA refused to consider this report or permit it to become part of the closing.

Another example of the FHA's disregard for construction defects submitted by a cooperative recently took place at Brigham Park section 2, Brooklyn. When the board of directors received a report from the FHA based on an inspection made by this agency of the buildings of this project, 9 months after finaling-out, there were many construction defects missing which had been discovered by the cooperative.

A list of the defects was sent to the FHA and a promise was secured from the FHA by a member of the board of directors that when the 12-month inspection was made, a member of the cooperative would accompany the FHA inspector for the purpose of pointing out faulty construction.

This promise was never kept, and subsequently the board of directors received a communication from the FHA stating that the 12-month inspection revealed no latent defects.

There have been cooperatives who have paid charges and expenses totaling thousands of dollars which were the builder's obligations because they had no representation at the finaling-out.

Before finaling out the FHA has been adamant in its position that the builder retain control of the cooperative until after he has received his money. To this end its officials have arranged conferences between stockholders' committees, and the builder, to effectuate compromises which would permit the builder's dummy directors to remain in office.

As soon as stockholders began to discover that annual meetings at which they could elect directors were due to be held before the project was completed, builders of new cooperatives, with FHA approval, inserted a bylaw calling for the annual meeting of stockholders to take place 30 days after finaling out.

When the stockholders started to join together and threaten the tenure of the sponsor's board of directors, the builders of new cooperatives, with FHA knowledge, have inserted a clause in the stockholders' subscription agreement that prior to signing the occupancy agreement the corporation, run by the builder's dummy board, can return the money paid by the shareholders and ask for the return of the stock. This has put a weapon in the hands of the construction contractor with which to intimidate cooperators who desire to assert their legal rights as stockholders.

At this time, Senator, I think it is in order—and I say it sincerely—to thank the committee, Mr. Simon, the staff, Mr. McKenna and his staff, for the real interest and the excellent job that has been done here. However, as far as the people who now own shares of stock in these cooperatives, all of this interest and all of this excellent work which has been done will be of no avail as far as they are concerned, because if these hearings do not result in Government aid to reduce their monthly charges, then we have given you the story, we have been misled, but we are still carrying the burden.

Remember, Senator, that it is a Federal agency that is largely responsible for the high carrying charges that the cooperatives are compelled to pay. We relied on that Government agency to protect us. We did not get that protection and we are paying for it.

Senator BUSH. Have you any suggestion as to what—or am I anticipating?

Mr. GALLET. Yes, sir.

Senator BUSH. Go ahead.

Mr. GALLET. Veterans with fixed incomes find themselves using moneys that should go for necessities to pay rental charges as a result of having been victimized by the joint action of the FHA and the builders. The following are some of the ways which the Government can help the residents in 213 cooperatives:

(1) Refinance the mortgages now existing in 213 cooperatives with the express purpose of reducing the interest rate now paid.

(2) Reduce the FHA insurance premium from one-half to one-quarter of a percent.

(3) The Government to make repairs due to faulty construction and look to the builders for reimbursement. Many cooperatives are consistently making repairs due to defective construction because of the builders' failure, refusal, or neglect to correct the defects. This has resulted in an additional financial burden to the development which must eventually be borne by the residents.

(4) A reevaluation of the ground rent now paid using the actual cost paid by the builder for the land upon which the cooperative was built.

(5) The replacement of the personal indemnity executed by the builder with a surety bond for the full amount of the construction contract.

Let me explain that for you, Senator. In all my years in the practice of law I have never seen an indemnity such as this. The builder puts up no cash, no bond backed by an insurance company. He puts up a personal undertaking that he and his wife, up to 10 percent of the replacement cost, estimated, will be responsible if the job is not done right. That is all. In other words, if the job is improper, such as the architects' reports have shown, all you have is a cause of action.

Senator BUSH. But then he gets clearance on that before he turns it over, does he not, to the owners; he gets clearance from that commitment?

Mr. GALLET. No. That remains in effect for 2 years after finaling-out.

Assuming you do collect a judgment, 1 of 2 things happens: if it is for more than 10 percent of the estimated cost, or, two, being a builder and being in a very speculative business, you have no money. To me it is almost a worthless piece of paper.

(6) An outright grant by the Government to reduce the mortgage to its true value when measured against the fair price the cooperative could have been built for under competitive bidding, also taking into consideration the quality of the workmanship and materials that went into the finished job.

The taxpayers' money has been used for a long period of time to aid and subsidize a small group of builders. It is time help was forthcoming for the veteran cooperator and his neighbors.

Senator BUSH. Take a typical case, take Clearview. Is that where you live?

Mr. GALLET. Yes.

Senator BUSH. When the builder finished Clearview, he formed a corporation and then he sold stock in it to you and your neighbors.

Mr. GALLET. Yes.

Senator BUSH. He delivered that stock to you after the construction was completed, did he, or before?

Mr. GALLET. This is very interesting. He delivered the stock to us after we moved in, which was after the annual meeting of stockholders was held. So that the only ones who voted to elect directors at the annual meeting were his handpicked board of directors.

Senator BUSH. What was the approximate cost of the building or what was the mortgage, approximately?

Mr. GALLET. Approximately \$16 million.

Senator BUSH. How much was paid by all of the cooperators in connection with the purchase of their apartments? Just give me a round figure.

Mr. GALLET. You picked a rather bad example because this is a new situation. What happened in Clearview is that the builder took some of his windfall and plowed it back into the cooperative to make sure he would sell the apartments, and he advanced money for us, which we are paying back to him now at the rate of a quarter per month per room.

Take a cooperative where they put it on the full downpayment. It would take about a half hour to explain all of the ramifications of it. You take another cooperative where they put it on the full downpayment.

Normally, your downpayment plus the mortgage pays the construction contract. So that, roughly estimating, you would say that the mortgage which would be 95 percent plus 5 percent downpayment constitutes the entire amount. If the mortgage is 90 percent, then the cooperatives have to put down 10 percent.

Senator BUSH. Are those payments made in cash by the cooperators at the time they take possession of their stock?

Mr. GALLET. No. That is made when they purchase their stock before all these contracts are entered into. As you purchase your apartment, you pay for it.

Senator BUSH. My point is, Do you make a cash payment for it or do you pay for your stock over a period of years on a time-payment basis?

Mr. GALLET. No, it is a cash payment, except as I said before, in Clearview where the builder advanced or put some of his profit back into it.

Senator BUSH. Is it fair to say that the total amount of the cooperators' payments for their ownership would be approximately 5 percent of the project?

Mr. GALLET. Of the total construction of the project, yes. There is a difference between the value and what we actually paid, provided the mortgage is 95 percent.

Senator BUSH. Do you think there has been any excessive valuations in these mortgages as there have been under the section 608 projects, for instance?

Mr. GALLET. This is a very worthy successor. The same pattern was formed here as in the section 608's. The mortgage was set not on the actual value of the development.

Senator BUSH. The promoter of a section 213 project has been able to mortgage out completely before he invites you tenants or cooperators in. Has he been able to mortgage out 100 percent or more, as they have under the section 608's?

Mr. GALLET. I would say yes, just from gathering the information as I showed you in Edgebrook where it was 98 percent. I have never had a chance to look at the builder's books. I believe the committee would be in a better position to do that, but I would say you are on the right track.

Senator BUSH. That is a conjecture on your part, but you don't happen to know of any instances where they mortgaged out plus a

large profit before they turned the property over to the cooperators; you don't happen to know of any?

Mr. GALLET. No; not actually.

Senator BUSH. Have you any further questions?

Mr. SIMON. No.

Senator BUSH. Any further questions, Mr. Kenney?

Mr. KENNEY. Yes. How much was the increase of the monthly payment to the cooperators by reason of having to pay these extra charges? Take Clearview Gardens as an example. What is the resultant monthly charge, say on one type of apartment as an example?

Mr. GALLET. Usually the charges are on a percentage basis. In other words, the smaller apartments would receive a smaller increase and the larger apartments you pay a larger charge.

Mr. KENNEY. What is the present monthly carrying charge on a larger apartment in Clearview Gardens?

Mr. GALLET. Clearview Gardens has six separate corporations. The reason for it is that the FHA will not insure a mortgage of more than \$5 million.

Senator BUSH. Are they four-room apartments?

Mr. GALLET. They are 3½, 4½, 5 and 5½.

Senator BUSH. What is the scale, so to speak, on a monthly basis? How would you phrase that?

Mr. GALLET. Mr. Medine, the next witness, I believe, has it broken down in charts. I believe he has a whole chart on that.

Senator BUSH. Roughly, what is the percentage increase?

Mr. GALLET. The average overall increase is as high as 18 percent in the fifth corporation, and will go as high as maybe 13 percent in the first corporation. It is about 14 to 15 percent.

Mr. KENNEY. In Clearview Gardens, for instance, after the additional amount that is required in the monthly carrying charges, how does that compare with the rentals for other units? Isn't that amount lower than what these cooperators would rent comparable accommodations for?

Mr. GALLET. It depends where you go. I have never made any survey on the ground. I would say this: I would say that the act creating this type of housing was good. I say that Congress had the right idea and that if they were built properly, dollar for dollar, you cannot buy this kind of value anywhere else.

Congress did a good thing when they passed the act. If it had been properly administered it would have been a wonderful thing—and could still be.

Mr. KENNEY. All of these excess charges could be avoided by the cooperatives themselves if they would promote their own projects, but they don't do that.

Mr. GALLET. The reason they don't do that is the way it is set up. You have to get a group of people together to buy land. You have to have an architect that works along with you until you get paid.

In Edgebrook, out of \$2,133,000 the builder had to advance about \$70,000. He got it back.

If the Government advanced the money, since it all comes back, and you had a true cooperative where the people themselves took it from the beginning, this could be a very good answer to the housing shortage for millions of people.

The intent is wonderful. Congress did the right thing. It is the administration of it that fell down.

Senator BUSH. Its success is dependent upon two things, is it not: One is the integrity of the builder, and the other is the administration in FHA?

Mr. GALLET. Right.

Senator BUSH. Its inspection service and its general supervision over the project until it turns it loose.

Mr. GALLET. That would make the integrity of the builder very high. I mean a real administration of it.

Mr. KENNEY. Another very important element is the ability of the promoter to put the deal together.

Mr. GALLET. Yes.

Mr. KENNEY. He has a selling job there, he has to sell the cooperators.

Mr. GALLET. Actually these things have practically sold themselves. The only thing that is done is that an ad is put in the papers, or a large sign is put up. The people find the cooperative.

No one went to find me. I saw the ad in the paper on a Friday, and Saturday morning I was down there. The situation today is a sellers' market.

Senator BUSH. That is the point. It has been a sellers' market and a housing shortage. So the people have been looking for opportunities to get homes.

Mr. GALLET. Yes. Frankly, they have been closing their eyes and taking a chance. They say that a man who acts as his own attorney has a fool for a client, but I said to the man, "What are all these papers? Suppose I want something changed?" He said, "You just go home." I had no choice.

Senator BUSH. If this type of cooperative project was to be done independently of the Government at all, it would be difficult to get a mortgage of 95 percent on a property; would it not?

Mr. GALLET. Oh, definitely. The only thing that brings it along is the insured mortgage.

Senator BUSH. That is what makes it possible.

Mr. GALLET. No question about it. Congress did a wonderful thing in the idea and intent of this thing, but somewhere along the line it got mishandled.

If you read the minutes of the hearings, the intention was to have groups like labor unions, teachers' retirement funds, and other groups build this type of housing; but in the shuffle it wound up in the hands of the speculative builder.

Mr. KENNEY. Do you have any suggestions to make which would correct these deficiencies?

Mr. GALLET. Oh, yes.

Senator BUSH. Have you done so?

Mr. GALLET. I have met with Senator Capehart and gave him suggestions. I have met with Senator Lehman's office. I have met with Senator Ives' office. I have become almost a second resident in Washington. I think Mr. Simon and Mr. McKenna will verify that.

Actually the fault is in the administration. That is where it is.

Senator BUSH. Would you say that these difficulties are caused more by lack of administration rather than by collusion?

Mr. GALLET. I think they go hand in hand.

Senator BUSH. I think you have to say, in fairness, that you have no evidence of collusion or, if you have, you have no given it to the committee.

Mr. GALLET. That is right, but certain facts lead to an almost inevitable conclusion.

Senator BUSH. The committee would welcome any evidence of collusion between the FHA and inspectors or other officials and these builders, and if you come across any at any time I hope you will feel obliged to come to the committee with that information.

Mr. GALLET. Within 3 minutes after I get it, you will get it in full, Senator.

Mr. KENNEY. You mentioned that there would be a difference to the cooperators whether or not it was based on a lease or a fee.

Mr. GALLET. Sure.

Mr. KENNEY. Isn't it a fact that if it is based on the fee, he has to pay a rate of return on the amount of that fee?

Mr. GALLET. That is true.

Mr. KENNEY. And he would have to advance the money to buy the fee.

Mr. GALLET. That is true.

Mr. KENNEY. In either case he pays.

Mr. GALLET. Except this, sir: Just as a builder is willing to take the rent, I say that giving him a fair return on his land you can pay it out, instead of paying for 99 years as ground rent. On this basis within 10 or 15 years you can pay him the amount of his money on his investment plus a fair return. It doesn't necessarily have to be a cash purchase immediately because these are not small developments. They run from a half a million to \$17 million. A man can do a legitimate construction job and make a good profit because most of them are through in 1 or 2 years.

Senator BUSH. I want to thank you very much for your testimony, Mr. Gallet, and I congratulate you upon your energetic interest in this situation. I think it is fine that somebody is willing to take leadership on behalf of his neighbors in connection with a matter like this. The committee is most grateful to you.

The next witness is Mr. Leigh Medine.

Will you raise your right hand, please?

Do you solemnly swear that the information and testimony which you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF LEIGH M. MEDINE, PRESIDENT, CONFERENCE OF PRESIDENTS OF FHA SECTION 213 COOPERATIVES

Mr. MEDINE. I do.

Senator BUSH. Mr. Medine, this is rather a lengthy statement which you have here. Now the committee will be very glad to incorporate it in full in the record of the hearings at this point, if that suits your

wishes, and we would like to have you summarize it or make such comments about it as you desire.

Is that satisfactory to you?

Mr. MEDINE. That is perfectly satisfactory.

(The prepared statement of Mr. Medine follows:)

I represent the Conference of Presidents of FHA Section 213 Cooperatives. The presidents of 36 cooperative corporations with 10,500 stockholders participate in the activities of the conference. We work in close harmony with the United Housing Foundation whose leaders, Louis H. Pink and Abraham E. Kazan, have had 20 years' experience in the middle-income cooperative housing field.

Some time ago, we advised your committee of our intense interest in the current hearings, and of our desire to present our problems to your committee. We appreciate this opportunity to tell the story of the section 213 cooperative and its administration.

We, who are responsible for the operation of the present section 213 cooperatives, sincerely believe in the benefits to be derived, by middle-income families, from cooperative housing. We hope that your investigation will lead not only to the elimination of the present abuses, but also to an expansion of the cooperative housing program.

MAJOR COMPLAINTS

For easy reference, we have divided the abuses into five major categories, namely:

(1) Unfairness in the original construction contract providing for excessive profits.

(2) Appraisals of land and buildings which lead to unjustifiably high land rentals and overfinancing. This produces higher monthly carrying charges.

(3) Poor judgment in estimating the monthly expenses with the result that many tenant owners are now required to pay 10 to 20 percent more than they originally anticipated.

(4) Inadequate performance of the construction contract and cursory FHA inspection of this performance.

(5) Refusal to provide the stockholders (tenant-owners) with sufficient information prior to requiring full payment.

COMPARISON BETWEEN SECTION 608 PROGRAM AND SECTION 213 COOPERATIVE PROGRAM

Both these programs depend upon FHA insured mortgages for their very existence. Under both programs the builder-sponsor must submit estimated construction costs and maintenance expenses to the FHA for approval prior to construction.

The one great difference between the two programs is that a section 608 is built and then operated by the same concern, whereas a section 213 development is built by a sponsor, who then turns the completed structure over to the occupants to operate.

Under section 608 any shortcuts in construction, or high fixed charges caused by overfinancing would affect the market value of the builder's interest, whereas under section 213 it is the individual tenant owners that suffer. In a section 608 project, the individual tenants may be paying an excessive monthly charge, but at the expiration of their lease they can leave without incurring any liabilities. On the other hand, an owner of a section 213 cooperative apartment may not only be paying excessive monthly charges, but cannot leave the apartment without suffering serious financial loss if he does not first find a buyer who will assume the future monthly charges and who will repay the original investment.

UNFAIR CONSTRUCTION CONTRACTS

Your committee has elicited from builders of section 608 developments, testimony regarding large windfall profits. Since we do not have the right to subpoena the records of the various builders in the section 213 program, we have no specific information regarding their actual costs, and regarding possible windfall profits.

However, we do know that practically every section 213 development was built by persons or organizations which were previously involved in section 608 developments, and, therefore, it is quite likely that the same windfall profits have accrued to the builder-sponsor in the section 213 developments.

We urge your committee to use their power of subpoena and delve more deeply into the records of the various builders who have built under section 213 of the Federal housing law.

If it is discovered that the actual costs of the builders were less than the amount of the insured mortgage, the windfall profits will be greater because the builder actually in addition to his windfall also received the down payments of the cooperative tenant-owners.

The recent hearings and testimony have demonstrated that FHA officials were aware of windfall profits being made in certain cases. Therefore, we must conclude that the excessive construction contracts were not only a result of inadequate supervision, but also a product of deliberate FHA policy.

In a section 213 development, the negotiation of the construction contract is a farce in that the building concern deals directly with a dummy board of directors of the cooperative corporation, who do not have the interest of the co-operators or stockholders at heart, but whose primary interest lies with the builder. An examination of the personnel of the principals of the building concern of almost any section 213 development will show the interrelation between those principals and the dummy board of directors of the cooperative corporation.

Under the present procedural setup, the FHA is the only safeguard between a fair and an unfair construction contract.

In our experience with the FHA to date, we have found an attitude that they are merely an insuring agency and that they have no other function. The attitude can almost be classed "the public be damned." This is particularly true in the higher echelons.

Congress intended differently when they passed section 213 of the Housing Act of 1950 by authorizing the Federal Housing Commissioner to furnish advice, planning, and assistance in the construction of nonprofit cooperative housing projects, to be built by private contractors, at a fixed fee. The primary objective of section 213 was to foster good and adequate housing at a lower cost, for the veteran and his family, and the average income groups, which were being trapped in a "squeeze" between their ineligibility for low-cost city and Government subsidized housing and the inflated cost of commercial rental housing.

We appreciate that any federally sponsored building program, cooperative or otherwise, must be set up in such a fashion so as to be attractive to builders. We feel certain that many builders would still be attracted to these programs, even if the profits are far less than they have been to date. Our conclusion is based on the fact that reputable builders have built cooperative projects under the strict control of the New York State Division of Housing.

Legislation providing for careful auditing of costs throughout construction and limitation of profit would remedy the present inequitable price of the structures.

UNJUSTIFIABLY HIGH LAND RENTALS

All of the present section 213 cooperatives lease the land upon which their buildings stand. The rental provided for under these leases is based upon the improved value of the land, which, in most cases, bears an absurd proportion to the original cost of the land.

For example: In the Clearview Gardens development, located in Queens, the land originally cost the builder \$760,000, and the lease with the cooperative corporation is based upon a land valuation of \$2,100,000.

Similar situations will be found in all 213 developments where the land is valued for lease purposes between 3 and 5 times its initial cost.

This inequitable situation could be cured by allowing the cooperative to own the land itself, or by leasing the land to the cooperative at its actual cost, plus any additional moneys invested by the builder himself, in the improvement of the land.

UNDERESTIMATED CARRYING CHARGES

As was stated before, the builder-sponsor must submit to the FHA estimates of carrying charges prior to construction. Our experience shows that the FHA was derelict in its duty in approving unrealistic carrying charges.

A review of most of the present 213 developments shows an average increase within 1 to 2 years after occupancy of 10 to 20 percent in the carrying charges, and a schedule of the increases in carrying charges follows:

Name of cooperative	Date of occupancy	Number of units	Average carrying charge per room	Date of increase	Amount of increase
Northridge, secs. 1, 2, and 3.....	February-July 1952.	1,125	\$20.00	Oct. 1, 1953.....	Percent 17½
Mitchell Gardens, sec. 2.....	September 1952.....	420	19.00	do.....	10
Mitchell Gardens, sec. 3.....	April 1952.....	514	19.00	Oct. 1, 1954 (anticipated).	10
Vernon Manor, secs. 1 and 2.....	August 1951-February 1952.	960	22.00	October 1953.....	7
Hilltop Village, secs. 1, 2, 3, and 4.	October 1953-March 1954.	880	20.00	(¹).....	(¹)
Parkway Cooperative.....	Feb. 1, 1954.....	82	20.50	September 1954.....	12
Beech Hills, Nos. 1, 2, and 3.....	January-August 1953.	816	19.00	Nos: 1 and 2, Feb. 1, 1954; No. 3, July 1, 1954.	10
Clearview Gardens, No. 1.....	November 1951.....	376	18.00	{ Apr. 1, 1954..... Sept. 1, 1954.....	{ 7½ 6
Clearview Gardens, No. 5.....	December 1952.....	212	18.00	{ Apr. 1, 1954..... July 1, 1954.....	{ 10 8.08
Clearview Gardens, No. 6.....	do.....	448	18.00	July 1, 1954.....	7½
Hamilton Cooperative.....	March 1953.....	160	20.25	(²).....	² 12
Brigham Park, No. 1.....	December 1952.....	162	20.00	February 1954.....	10
Brigham Park, No. 2.....	do.....	162	20.00	do.....	5
Knolls, No. 1.....	July 1953.....	240	21.00	Aug. 1, 1954.....	10

¹ No increase as yet, but operating at 10-percent deficit.

² Increase of 50 cents a room at occupancy, Jan. 1, 1954.

We know that in most of these cases, the need for the increase can be traced to the original project analysis, which was prepared by the builder and presented to the Federal Housing Administration for approval.

Of course, it was of interest to the builder to keep the estimated carrying charges as low as possible, so that he would have a more marketable product.

Since it was impossible for the prospective cooperator to obtain from the builder the data necessary to form an intelligent opinion about the adequacy of the carrying charges, it was the duty of the FHA to see to it that these charges were factual and realistic and the chart above conclusively shows that they failed to do so.

A great segment of the public who became interested in purchasing cooperative apartments relied upon the fact that the stamp of the FHA appeared in the newspaper ads and, unfortunately, these people later found out that the protection which they had anticipated was not there.

A closer scrutiny and comparison of the project analysis figures with the budgets prepared by the resident board of directors after occupancy shows glaring errors of judgment. For example: At a time when the union scale for porters throughout the city of New York was \$53.25 per week, the project analysis was allowing \$35. Another glaring example was the fact that the project analysis anticipated 100 percent occupancy of garages, when it should have been known to the FHA that that was a rare instance, rather than a regular occurrence.

To show more clearly the items of expense which were unrealistic, I set forth a schedule of my own corporation, Hilltop Village Cooperative, No. 1, Inc., showing the project analysis figures, as compared to the budget figures:

	Estimated budget, FHA	Estimated budget, 1954-55
Income:		
Rental on apartments.....	\$206,044.80	\$206,044.80
Rental on garages.....	16,560.00	7,800.00
Washing machines.....		3,000.00
Total income.....	222,604.80	216,844.80
Expenses:		
Mortgage interest and amortization.....	91,920.00	91,920.00
Management fees.....	6,378.00	4,320.00
Legal and auditing.....	924.00	1,000.00
Fuel.....	10,712.00	12,000.00
Gas.....	3,602.00	3,600.00
Electricity.....	11,332.00	12,000.00
Elevator maintenance.....	1,600.00	2,100.00
Janitorial supplies.....	985.00	1,200.00
Water.....	3,152.00	3,152.00
Sewer rent.....		1,050.00
Exterminating and water treatment.....	394.00	750.00
Ground rent.....	6,040.00	6,040.00
Payroll.....	7,200.00	10,300.00
Repairs.....	2,007.00	3,600.00
Redecorating.....	1,180.00	1,200.00
Insurance.....	3,558.00	5,800.00
Materials for grounds.....	416.00	416.00
Miscellaneous expenses.....	794.00	1,000.00
FHA insurance.....	9,171.00	9,171.00
Payroll taxes.....	430.00	856.00
New York State franchise taxes.....		500.00
New York City real estate taxes.....	47,219.00	57,000.00
Reserve for replacement.....	3,425.00	3,425.00
Reserve for vacancies (3 percent of rental).....	6,180.00	6,180.00
Total expenses.....	218,619.00	238,580.00
Net profit (loss).....	3,985.80	(21,735.20)

Here it can clearly be shown that the errors in gross income and expense will involve an additional \$25,000 per year, which must be divided, pro rata, between our 200 stockholders, and which will mean an increase in carrying charges of about 10 percent caused not by increased cost of maintenance but by improper supervision initially.

This point is emphasized by the fact that the Queensview, a cooperative located in Long Island City, which was not built under section 213, but was built by a public-spirited group of citizens, who did not require FHA insurance, was able to estimate their initial carrying charges so that in 5 years of operation there has been only a 3-percent increase, and that has been caused by normal higher operating costs.

The reasons for the poor judgment could be many, and one solution we might suggest is more and better personnel, paid salaries which will eliminate any possibility of temptation.

COMPARISON OF ESTIMATED MAINTENANCE EXPENSES OF A SECTION 698 AND A SECTION 213 PROJECT

A comparison between the project analysis of a small section 608 project built in 1950 and a section 213 project built in 1954 reveals more clearly the probuilder attitude of the FHA.

Though the section 213 project analysis was approved 4 years after the section 608 project, when costs had risen considerably, the FHA allowed higher estimates for elevator power, heating and ventilating, janitor, and payroll in the case of the section 608 project.

Most significant was the payroll item which was almost 50 percent higher in the case of the earlier section 608 project.

Whereas section 608 projects were generally estimated on the basis of \$28 to \$30 per room, 213's ranged from \$19 to \$21 per room.

INADEQUATE PERFORMANCE OF THE CONSTRUCTION CONTRACT

Several of the existing section 213 cooperatives have litigation pending against the builder, the original board of directors, and in some cases, the FHA.

Most of these complaints allege the abuses referred to above in connection with inequitable construction contracts and unfair land leases.

Many of them also allege that the actual construction did not meet plans and specifications. With regard to this latter allegation, much more will be known in the future, when this litigation is prepared for trial.

Notwithstanding that fact, the FHA has again fallen down on its duty as intended by Congress.

Tenant-owner boards who have raised objections to quality of construction have met deaf ears within the FHA.

The cooperative corporation is not even given the date of periodic physical inspections by the FHA, though repeated requests have been made for representation at that time. This attitude is ridiculous since the actual residents are in the best position to point out latent defects to the inspector.

In some cases, the cooperative corporation has not received a copy of the 9-month inspection report from the FHA for such a long period of time, that many of the guaranties given by the builder have expired.

In this connection, Knolls Cooperative No. 1 hired competent professional help to examine their plans and specifications and their buildings.

This survey was conducted within 1 year of the time of occupancy, and it was found that the cooperative corporation would have to incur \$12,000 expense to repair a roof, and \$22,500 expense to put their heating system in proper operating condition.

Peculiarly, the bylaws of the Knolls Cooperative provide that the corporation cannot obligate itself in excess of \$22,000 in any one year.

These necessary repairs, mentioned above, must be complete by the fall of 1954 in order to be of benefit during the heating season, and accordingly, the cooperative applied to the FHA for an amendment of their bylaws, after having explained their situation.

The FHA has to date refused to allow the amendment, without prior investigation, and the cooperative group is concerned that the FHA may delay this investigation for so long a time, as to prevent completion of the work before the heating season.

Of course, this report of the Knolls is embarrassing to the FHA since the construction was passed in good order at the time of occupancy, only 1 year ago. But delay by the FHA in admitting the error may mean a cold winter for the cooperators.

Since the FHA has the power to reject improper construction, the solution to the abuse is simply a matter of competent and honest personnel in sufficient numbers to properly supervise construction.

LACK OF INFORMATION PRIOR TO OCCUPANCY

Our conference feels that the main reason for much of the confusion and distrust in the section 213 program has been the inability of stockholders to find out the basic facts about the corporation they own prior to occupancy.

This makes it impossible for them to protect their, and the cooperative corporation's, interests, prior to completion of the buildings. Once the buildings are finished, the damage is done and legal remedies are both slow and inadequate. Individual stockholders, after having been rejected by the builder in their attempts to get a meeting of their fellow stockholders, have gone to the FHA, the only other place where a list of stockholders is kept. Though these requests have been patiently repeated many times, the FHA has failed to adopt a clear policy requiring stockholder meetings sufficiently prior to occupancy so that stockholders' interests can be protected. As a result, confusion, distrust, and litigation grows.

I had occasion recently to help a cooperator of a small development in Flushing known as Murray Hill Cooperative Apts., Inc. After several months of repeated efforts to have the builder call a meeting prior to occupancy this cooperator finally decided to sell his stock and withdraw from the project.

I am attaching copies of a letter about Murray Hill sent by Mr. Feay, the cooperator, to Mr. Albert Cole and also a letter sent by Senator Lehman to Mr. Feay. This correspondence states the problem clearly when Mr. Feay writes on page 2 of his letter.

"Is the FHA primarily concerned with the builders of the 213 development or will the FHA take action to help the stockholders in these cooperatives to protect their interests?"

We feel that the lifeblood of the program depends on legislation wherein the speculative builder will have a duty to keep the cooperative purchaser advised periodically of the finances of the construction. We certainly appreciate that this type of legislation could have bad effects if the cooperators, through ignorance, harass the builder and delay the completion of the project. In that connection, the Federal Housing Administration would have a positive duty and function to educate prospective cooperators with regard to their obligations, as well as their rights.

Many non-FHA middle-income cooperatives in the New York area have followed such a policy; and we are certain that proper FHA personnel could handle this phase effectively.

CONCLUSION

I have tried to point out to your committee the important weakness of the present cooperative housing program and have also tried briefly to suggest possible legislation corrections.

There are, no doubt, many other solutions to the present abuses, but I feel that the thought and changes should be directed to the areas covered here.

COPY OF LETTER WRITTEN BY MR. HERBERT L. FEAY TO MR. ALBERT M. COLE

FOREST HILLS, N. Y., *June 10, 1954.*

Mr. ALBERT M. COLE,
Administrator, Federal Housing Administration,
Washington, D. C.

DEAR MR. COLE: I am writing you on the suggestion of Mr. Louis H. Pink, president of the United Housing Foundation, 345 East 46th Street, New York 17, N. Y.

I am a holder of stock and have signed an occupation agreement for an apartment in the Murray Hill Cooperative Apartments, Inc., 38-15 149th Street at Roosevelt Avenue, Flushing, N. Y., and I desire to take action to protect the interests of myself and all the other persons who will be the tenant-owners of this cooperative apartment house.

Under date of May 6, 1954, I wrote to the president of the Murray Hill Cooperative Apartments asking that he call an immediate meeting of the stockholders and that he furnish me with a complete list of the names and addresses of the owners of the shares of stock for the Murray Hill Cooperative. I have not received a written reply to my letter and I have not been furnished with the list of names and addresses.

Mr. Sussman, the developer for this project, and an attorney, telephoned me and arranged for me to meet him and Mr. Liebowitz at the development on May 26. Mr. Leigh Medine, an attorney who is president of a committee of 213 cooperative apartment developments, went with me to see Mr. Sussman and Mr. Liebowitz. Mr. Sussman stated that he would not give me the list of owners of shares of stock and that he would not call a meeting of the stockholders until the building was 75 percent completed. He advised us that he had received a directive from the FHA requesting that a meeting of the tenant-owners be held after the building was 75 percent completed. Mr. Medine understands that this directive has been suspended at least temporarily.

We asked Mr. Sussman to promise in writing to hold the meeting after the building was 75 percent completed. He claimed that he could not do so until he consulted the balance of the board of directors. Since our meeting, Mr. Sussman advised Mr. Medine that the sending of the letter was still under consideration but that if the letter were sent he would want a letter from me in return promising not to take any further action until the meeting was called.

I wrote to Hon. Herbert H. Lehman, Senator, of New York, in regard to the Murray Hill Cooperative development and I received a reply dated May 20. A copy of Mr. Lehman's reply is enclosed. You will note that Mr. Lehman states that I am entitled to a list of the cooperators who are shareholders in the cooperative development.

I have written letters to the New York City office of FHA addressed to Mr. McKenna but have never received a reply. It is for this reason that I am writing direct to you.

I would be pleased to have your comments on these problems. Is the FHA primarily concerned with the builders of the 213 developments or will FHA take action to help the stockholders in these cooperatives to protect their interest? Can anything be done if the contracts made between the dummy board of directors set up by the builders and the builder give the builder excessive profits as occurred for the section 608 projects?

I am sending copies of this letter to Senator Lehman and to Mr. Pink.

Very truly yours,

HERBERT L. FEAY, *Actuary.*

P. S.—Neither Mr. Liebowitz, the president of the board of directors as set up by the developer, nor Mr. Sussman, they advise me, expect to have an apartment in the building. The building has been started and the brick work is about to the second-floor level.

COPY OF LETTER WRITTEN BY SENATOR HERBERT H. LEHMAN TO MR. HERBERT L. FEAY (REFERRED TO ON P. 9 OF MEMORANDUM)

UNITED STATES SENATE,
Washington, D. C., May 20, 1954.

Mr. HERBERT L. FEAY,
Forest Hills, N. Y.

DEAR MR. FEAY: I was interested in hearing of your interest as a cooperator in the Murray Hill Cooperative Development, a 213 housing cooperative. It is difficult to advise what should be done by cooperators in any specific project, for they all vary somewhat.

We in the Congress are examining very carefully the legislative authority for section 213 cooperatives in the hope that we can protect individuals from the excesses that characterized the section 608 projects.

I have great confidence in Mr. Louis Pink, whom I have known for many years. As long as your group is consulting with him I am sure you are getting sound advice. Needless to say, I would be glad to consult with Mr. Pink at any time that such a meeting would be useful.

With respect to your request for a list of the names of individual cooperators, it should be pointed out that, as a shareholder in a cooperative, you have the right to obtain from the sponsors or the board of directors such a list. You may also wish to request the sponsor to call a meeting of stockholders to present requests or obtain information.

I hope these observations will be helpful to you.

Yours very sincerely,

HERBERT LEHMAN.

Mr. SIMON. Before you start, would you give your name and address and the group you represent?

Mr. MEDINE. The name is Leigh M. Medine. Address, 87-56 Francis Lewis Boulevard, Hollis 23, N. Y.

Mr. SIMON. You are the president of the conference of FHA section 213 cooperatives?

Mr. MEDINE. That is correct.

Mr. SIMON. About how many families are represented in that conference?

Mr. MEDINE. Approximately 10,500 families, which amounts to about 70 percent of the cooperative units presently constructed in the New York area.

Mr. SIMON. I gather there is some duplication between your group and Mr. Gallett's group?

Mr. MEDINE. Yes, there is.

Senator BUSH. What is your business or profession?

Mr. MEDINE. I am an attorney, but I would like to state at the beginning that my job as chairman of the conference of presidents is a nonpaying one, and in addition to that I do not represent in a professional way any of the cooperatives. The only contact I have with the cooperative field is through this conference.

I am also president of one of the cooperatives, Hilltop, Queens.

Senator BUSH. Do you live in that?

Mr. MEDINE. That is right.

I would like to state how our conference came into being, because I think it is of importance in the discussion here. About the beginning of this year we, who are on the board of directors of cooperatives, felt a great need to get together to discuss common problems. This organization was organized prior to this present investigation.

The reason we wanted to get together was to discuss items of oil and so on, that Mr. Gallett mentioned.

We got together and we have maybe 25 or 30 presidents of boards of directors who convene at intervals, monthly intervals, to discuss these problems.

Of course, in the back of our minds we all felt that the problems touched upon which Mr. Gallett and which I have touched upon in my brief were of importance, but they weren't the most important problems.

I want to emphasize at this point that we are interested in cooperative housing in the long-range viewpoint. That is why I accepted the opportunity to testify here today.

Let me say it this way: A question was asked by one of the members of your committee here whether rents or carrying charges in a cooperative development are lower than ordinary rental houses. The answer, unqualifiedly, is yes, even with the increase, but I don't think that is of great importance.

The fact of the matter is that housing can be lower than it is today, and can be lower for middle-income families not only in New York City, but all over the country, and the reason that I am here to testify and to point out the abuses that I have knowledge of, is in the hope that the legislature will do something to improve the present law and to look to the future of cooperative housing, because when we add it up, it has only been maybe thirteen or fifteen thousand units completed under section 213, and I hope and I trust that this investigation will not end cooperative building, but will be a flag to the legislature to further and to cure some of the present abuses.

Senator BUSH. Do you intend to make some recommendations in writing to this committee in that connection?

Mr. MEDINE. I would love to have the opportunity.

Senator BUSH. You are invited right now to make such recommendations in connection with the law or such action that you think the Congress might take in the way of improving this situation by law.

We would welcome a statement from you at your convenience in that connection.

Mr. MEDINE. It will take some time.

(The statement referred to follows:)

NEW YORK 17, N. Y., *October 21, 1954.*

HON. HOMER CAPEHART,
*Senate Banking Committee,
Senate Office Building, Washington 25, D. C.*

DEAR SENATOR CAPEHART: On August 24, 1954, I testified before your committee at the Hotel Astor in New York City.

My testimony was given as chairman of the Conference of Presidents of Section 13 Cooperatives, and dealt, in the main, with abuses of builder-sponsors in this cooperative housing field, and further, with the inadequate management of the Federal Housing Administration.

During the course of my testimony, I emphasized our keen desire to promote and further cooperative housing in this country and I urged your committee to consider my testimony in a constructive manner.

Senator Prescott G. Bush, who presided at the New York hearings, asked several pointed questions, and then invited me to forward to your committee my recommendations. This letter contains the major recommendations proposed by our conference.

We feel strongly that most of the current abuses would be liquidated, if the prospective tenant-stockholder were given full and complete details concerning the construction and operation of the building project, prior to the time when they invest their life savings. In furtherance of this idea, I am attaching to this letter a proposed FHA regulation to insure adequate and timely information to shareholders. If this regulation, or one of a similar nature, were adopted, we feel that most of the abuses set forth in the memorandum presented to your committee on August 24, 1954, would be eliminated.

Secondly, the public would be protected if there was a requirement that prior to the start of actual construction, the tenant-stockholders (cooperators) should have the right to organize themselves and then to select a competent organization to represent them at the initial closing, and thereafter, up to the time of occupancy. At the present time, such is not the case, and many cooperators never have the chance to protect their interests until after occupancy. However, if this were required, there are public-spirited organizations, such as the United Housing Foundation, and its subsidiary, Community Services, Inc., who could provide experts during the pre-occupancy period for very low compensation.

If these two suggestions are incorporated into the FHA regulations, or directly into the Federal statute, the prospective cooperators would have an opportunity to understand and appreciate the value of the interest they are purchasing and the problems entailed in the completion of a large apartment dwelling.

We have watched with interest your conduct of the Senate investigations of the Federal Housing Administration during the past several months and have noted that except for my testimony, and the testimony of one other witness, who is also a tenant-stockholder of a cooperative, your committee has not called any witnesses regarding section 213 cooperatives. None of the many 213 cooperative builders or sponsors have been asked to testify concerning the many cooperative developments.

Most of the testimony dealt with section 608 projects, and as we pointed out in our original letter to you in April of this year, the section 213 projects are sold in advance of construction to tenant-owners, who invest, in many cases, a substantial portion of their life savings, and abuses by the builder in these projects are far more serious than in the case of section 608 projects, where the builder and the owner is one and the same person.

We trust that your committee will continue its work in this field and will delve more deeply into the current section 213 projects, and we hope that the recommendations set forth in this letter, and its attachments, will be used and promulgated to insure future prospective cooperators a measure of safety in their investment, to which they are entitled.

Respectfully yours,

LEIGH M. MEDINE,
Counselor at Law.

PROPOSED FHA REGULATION TO INSURE ADEQUATE AND TIMELY INFORMATION TO
SHAREHOLDERS

The following information is a sample of what must be furnished every cooperator in a project whose mortgage is insured by the FHA :

PLAN OF COOPERATIVE ORGANIZATION OF FAIRVIEW COOPERATIVE, INC., BROOKLYN,
N. Y.—FHA NO. 012-00000

Fairview Cooperative, Inc., is a New York corporation organized under the New York State cooperative corporations law. It plans to build and then to operate a cooperative housing development under the rules and regulations of the Federal Housing Administration which will insure the mortgagee, the Brown Savings Bank, of Brooklyn, against loss in case of default on the mortgage.

The buildings and land

The building will be located on a block in the Borough of Brooklyn with Feld Avenue on the northern boundary, 32d Street on the east, Gore Avenue on the south and 33d Street on the west. The plot comprises approximately ---- square feet.

There will be 4 buildings 6 stories high. There will be twelve 3-room apartments, forty-eight 4-room apartments, and forty 5-room apartments in each building. Portions of the ground floor and cellar of each building will be designed for use as a garage and each garage will accommodate 28 cars.

The land is owned by the Branch Corp. For the purposes of leasing to Fairview Cooperative the land has been given a fair market value of ----- dollars. The cooperative will pay 4 percent of this sum, or ----, dollars, to the Branch Corp. as an annual rental. The Branch Corp. bought this land for ----- dollars in 1951, but the present market value has been approved by the FHA as a fair and reasonable figure.

Stock

The authorized capital stock of the corporation is -----, with ----- shares of common stock at \$5 per share and 50 shares of preferred stock at \$2 per share. The preferred stock is owned by the Federal Housing Administration, and the common shares will be issued to the cooperators on the basis of one share for each \$5 of the subscription price, delivery to be made upon completion of the payments required by the subscription agreement.

Regardless of the number of shares issued, each tenant owner will have one vote in the management of the affairs of the cooperative.

Directors

The present directors of Fairview are X, Y, Z, L, and M. They reside at: ----- (Then explain their relationship, if any, to the company that owns the land and the company that will build the project.) The officers of the corporation are: Y, president; X, vice president; and L, secretary-treasurer.

The first annual meeting of the cooperators will be held ----- At such meeting the present directors and officers shall tender their resignations, and the cooperators or stockholders will, if they so desire, elect a new board of directors. This new board may elect new officers of the corporation.

Mortgage

The Federal Housing Administration has agreed in a certificate of eligibility that when -- percent of the apartments are sold it will issue a commitment or agreement to insure the mortgage in the amount of \$----- This sum represents -- percent of the estimated value of the buildings in the opinion of the estimators of the Federal Housing Administration. In this estimate land value was not included since the cooperative does not own the land.

The permanent mortgage money is not paid until the buildings are completed. During construction expenses are covered by the moneys put in by the cooperators and a construction loan. Both the construction loan and the permanent financing are advanced by the Brown Savings Bank, of Brooklyn. A fee of 1½ percent, or -----, was paid to place the mortgage. Interest is paid at the rate of 4¼ percent, and the mortgage is to be paid off in 40 years, i. e., October 1, 1995. To pay the loan off in 40 years requires an amortization rate of -- percent. The terms of the construction loan, mortgage, and fee were approved by the Federal Housing Administration.

If the actual costs of construction as certified to the FHA by the contractor (see below), are less than the mortgage, the mortgage will be reduced. (Explain certification procedure.)

Contractor

Fairview Cooperative, Inc., has entered into a construction contract on behalf of the cooperative with Price Construction Co. of 101 Park Avenue as general contractor. Copies of the contract are on file at the office and are available for your inspection along with the plans and specifications. A summary description of the construction is contained in schedule A.

The stockholders of Price Construction Co. are _____
 The officers are _____; the directors are _____
 The Price Construction Co. has an interest in the successful outcome of the cooperative in the following respects.

Under the National Housing Act the builders are entitled to a 10 percent profit for services in connection with the construction of the building. Their costs will be certified to the Federal Housing Administration to see that the law is obeyed. In no event will their fee exceed_____.

Cost of development

The proceeds of the investments of all the cooperators will be deposited in a special account. (Explain.) The total of the moneys—based on veteran membership of 65 percent—plus the sum invested by the cooperators will be the total available to the corporation for the completion of the project. This sum is \$_____. It has been allocated as follows:

1. Working capital (explain)_____
2. Legal and organizational expenses (explain)_____
3. Title and recording expenses (explain)_____
4. Interest during construction_____
5. Insurance during construction_____
6. FHA examination fee_____
7. FHA mortgage insurance premium_____
8. FHA inspection fee_____
9. Other preoccupancy expenses_____
10. Construction contract, including builder's fee_____
11. Architectural expense_____
12. Independent inspection fees_____

Total _____

Monthly carrying charges

The monthly carrying charge is based on an average of \$_____ per room per month. This includes gas and electricity, but does not include redecorating the apartment. Insurance, real estate taxes, interest and amortization, repairs in the apartment, etc., are included in the monthly carrying charge.

In order that it is understood that the carrying charge is subject to change by virtue of changes in the real estate tax rate, garage vacancies, and changes in operating costs, we set down here how the rent is determined.

Estimated gross revenue from apartments_____ \$_____
 Estimated gross revenue from garages_____ _____
 Miscellaneous revenue (explain)_____ _____

Total _____

EXPENSES

Operating expenses:

1. Heating_____
2. Lighting _____
3. Water _____
4. Gas _____
5. Janitorial expense_____
6. Decorating of public spaces_____
7. Exterminator _____
8. Insurance_____
9. Maintenance of grounds_____
10. Furniture_____
11. Legal and accounting_____
12. Management expenses (explain)_____
13. Payroll
 - Porter, at_____
 - Janitor, at_____
 - Groundskeeper, at_____

EXPENSES—continued

Fixed charges:

14. Interest on mortgage, at -- percent	-----	-----
15. Amortization on mortgage, at -- percent	-----	-----
16. Real-estate taxes (explain)	-----	-----
(Assessment and rate.)		
17. FHA mortgage insurance premium (explain)	-----	-----
18. Ground rent (explain how arrived at)	-----	-----
19. Reserves for replacement (explain)	-----	-----
20. Contingency reserve (explain)	-----	-----
21. Other	-----	-----
 Total	-----	-----

It will be noted that the expenses equal the income. In the event that any expenses are substantially less than the above estimates, it should be possible to reduce carrying charges accordingly for the following year. Similarly, if actual expenses are greater than the estimates, your carrying charge will have to be increased.

Furthermore, if for any reason income is greater than the above estimates, it should be possible to reduce the carrying charges, and similarly, if income is less than the above estimates, your carrying charges will have to be increased.

These estimates of income and expenses have been submitted to _____, an independent organization with experience in the field of operating cooperative apartments. Schedule B is a copy of their opinion of the adequacy of the charges. _____ has no connection with any of the directors and officers of the Fairview Cooperative, Price Construction Co., or the Branch Corp.

Schedule D is a copy of the certificate of incorporation and amendments thereto of Fairview Cooperative. Schedule E is a copy of the bylaws. Schedule F is the occupancy agreement, and schedule G is the subscription agreement.

If after examining these documents you desire any further information before paying in the subscription price, it is suggested that you write Fairview Cooperative, Inc., at _____.

Senator BUSH. You have plenty of time because the Congress does not reconvene until January, so you have time to do it.

Mr. MEDINE. Yes.

In this memorandum here, I have touched briefly on some recommendations where I have covered an abuse, but I would like an opportunity to present an overall recommendation on legislation.

Now, very briefly, the major complaints that we have found, and I don't want to be repetitive, so I will brief this quickly.

We found five major complaints.

We found unfairness in the original construction contract. We found unfairness in the land leases.

We found unfairness in estimating carrying charges.

We found unfairness in the construction itself, and mainly the most important feature, as far as recommendations are concerned, we found that the Federal Housing Administration has not carried forward the intent of Congress.

I think here I might briefly say that the law itself, in language similar to this—I may not quote it perfectly—was that Congress authorized the FHA to furnish technical assistance to cooperatives in organizing nonprofit cooperative corporations and further in developing, constructing, and operating these section 213 housing projects.

That is the fifth point. The FHA data on that has shown very, very little foresight in helping cooperators organize. We have urged them many times to call these stockholders together.

After all, Senator, if you were buying a house you would expect the services of an attorney. You could hire an architect to look at your building as it was going up. We don't have that.

That has caused the major difficulty. If we had that, maybe the rest of the law would function correctly.

Now, I think Mr. Gallett has explained to you how these things come into being. It may not have been the original intent of Congress, but the builder finds a piece of land, he forms a corporation and he makes a contract, the right hand with the left hand, a very simple contract to make, no bargaining involved.

That contract is presented to the Federal Housing Administration, as you people know. The Federal Housing Administration passes on construction costs.

Senator, I think you asked the question whether in Mr. Gallett's opinion there were windfall profits made on behalf of section 213's as there were in section 608's, and as your committee has elicited.

I will say this: I can't give an answer to that question, mainly because I don't have the power of subpoena which your committee has. I don't know in any specific project what it costs to build it. I can assume, but I don't know.

However, from my investigation I find that most of the section 213's, if not all, were built by the same individuals that built the section 608's, so that if you go into the section 608 testimony and find windfalls there, why is a man going to change in midstream? Let's put it that way.

Senator BUSH. The section 608 law expired in 1950.

Mr. MEDINE. If I was building a section 608 and I was earning windfall profits and the law expired and another law came along, even though it was a cooperative law, that wouldn't be of any interest to me. Here is an FHA-controlled law. I would go forth and use the same procedures I used in the section 608 where I mortgaged out, as you put it.

Now, of course, none of us have evidence of that. The only committee that really can get the evidence is your own committee. I urge you again to go forward and find out what it costs these builders to build these projects.

Another important point dealt with here in the memorandum, and which I think is of especial significance to show the attitude of the FHA: I compared the project analysis of a section 608—a project analysis is an analysis presented by the builder to the Federal Housing Administration prior to the approval of the development—and it shows not only construction costs, it also shows estimated carrying costs.

I compared a 1950 section 608 with a 1954 section 213. Both of these were rather small developments.

In both these cases it was the duty of the FHA to approve these estimates. I found that in the section 608, 4 years earlier the estimated maintenance charges were higher than in the section 213 of 1954.

That to me was clear evidence of not only a lack of adequate supervision or of negligence on the part of the Federal Housing Administration but a definite, direct way of saying, "We want to support the builder."

The reason for that statement is this: In a section 608 it was to the advantage of the builder to have carrying charges or maintenance expenses as high as possible. The reason for that was that, based on the approval of those carrying charges, he was able to say a 4½-room

apartment is so much and the higher the estimates the higher the rents he could collect, the higher the profits he earned from maintenance.

In a section 213 it was to the advantage of the builder to have those estimates as low as possible so that he could go out and advertise in a newspaper, "Here is an apartment you can have for so much per room."

Now, when you see a section 608, which is approved at \$28 or \$30 a room, and then you compare it to a section 214 which is approved at \$19 to \$21 a room, you see a great spread.

Of course, there is some additional expense involved in the section 608 which is not in the section 213. There the operator—the operator must provide interior repairs which he does not have to do in section 213. He is also entitled to some profit on his investment, but not 50 percent over, as the figures illustrate.

That to me was the clearest illustration of where the FHA has fallen down. They knew the type of expense they approved in the section 608 and the section 213. For example, in this particular comparison I made they allowed \$17 and change per room for payroll expense. In the section 213, 4 years later, when costs had gone up, they allowed \$12 per room. A clear item, an item that they had reason to be able to prove was wrong or right. Another thing that they did—we will talk figures rather than percentages—

Senator BUSH. In other words, no reason why that kind of an expense, you say payroll expense per room, should not have been any lower in 1954 than it was in 1950?

Mr. MEDINE. If any thing, higher. Certainly not 33 percent lower.

Senator BUSH. Yes; on a comparable room, comparable building.

Mr. MEDINE. Yes. I have been in a section 608 and I have been in a section 213. The same builders built them, the same architects designed them.

I might point out 1 or 2 items where the FHA and the builder also was responsible, because the builder had knowledge of these things. The FHA allowed on a project analysis \$120 a month for a porter. The union wage is \$53.25, which is \$225 a month. And it is being renegotiated. Sometimes they allow us \$120 or \$125 for a porter.

All they would have to do is to call up any operating building in New York and they would be able to find it out.

Another thing they have done, which has cost us all a lot of money: Of course the building of garages is advantageous to the builder. It is cheap for them to build and he can charge a high price for it. They have assessed us that we are going to receive \$15 for a garage and 100 percent occupancy. In my own development we have 200 families. There are 85 garages at \$15. The income would approximate about \$13,000. Now, the FHA income that we were supposed to get was \$16,500. That was on garages.

We actually were able to rent maybe 50 garages, but we had to reduce the rent to \$10, which brought us, or will bring us about \$7,800 a year. That is a difference of approximately \$8,000.

When you divide \$8,000 by 200 families, you can quickly see that it is going to cost each family \$40 a year because of an incorrect estimate which the FHA had previous experience with.

In all these cooperatives since they have started, and in section 608's they have had trouble renting garages, so they should have taken that into consideration. Those are two of the major items, payrolls and garage.

Of course, we also found in our cooperative, and I have attached to the memorandum a setup on the cooperative—we have also found that insurance was underestimated 40 or 50 percent. We found that our taxes, which Mr. Gallett went into, were underestimated considerably.

We found overall that instead of earning \$4,000 a year we were going to lose \$21,000 a year. That is a difference of \$25,000 divided among 200 families is \$120 or \$125 per family, per year. Or in percentages, about 10 percent.

Now, we have not put that increase into effect because we have various amortization privileges, but it has to go into effect.

I have also attached to the brief here a list of 15 large cooperatives in New York City, including Clearview Gardens, where Mr. Gallett lives, including Hilltop, including Northridge, Mitchell Gardens, Brigham Park, Parkway Cooperative, Vernon Manor in Westchester.

I have set it up in a fashion to show when occupied the number of units occupied. It is on page 4, the average carrying charge, when they had an increase, and how much.

You will see that the increases range from 7 percent in some cases to over 18 percent in other cases. Clearly mismanagement by the present administering agency.

But I don't want to throw all the weight against the administrative agency, because we must remember that it was the builder that gave the figures to the administering agency, and the builder having experience in the field of rental development should have known what it was going to cost to operate a room in any rental development today.

I also went into quite a bit of detail in the brief on the point that I emphasized earlier, which was the lack of information which was given to stockholders prior to occupancy.

I would like to very briefly go through how I got interested in a cooperative, because I think that my situation is similar. I was a little more aware because I am an attorney.

I saw an ad in the papers. I went to the sales office. They told me there is a 4½-room apartment. I have to pay \$1,250 down, and it would cost me \$96 a month in carrying charges, rent, and that would include gas and electric. They told me to sign a stock-subscription certificate and occupancy agreement.

I read it over carefully, saw nothing wrong with it, and I signed it. Within 10 days my credit was approved and I was issued stock, at which time I had to pay over all my money.

That was prior to the breaking of any ground. It was barren land, cheap land, completely undeveloped.

For 14 months I waited, and finally I got a notice to move in. During that time I received no information regarding the financial structure of my own corporation, regarding the development itself, the construction, regarding any procedures which were taking place, even though at times I went down there to look over and ask questions. I was put off by the selling agent.

I finally moved in, and shortly after I moved in we got a small group of our tenants together and we got in touch with the board of directors, a dummy board which had been the builder's board, and

we organized an informal meeting, and from that meeting we asked the builder to give up his board, and some of his board resigned, and a month after occupancy we took over.

Now, 5 people took over the operation of a \$2 million project, but they took over the operation of the \$2 million project that was not beginning, that was well on its way. We took over a lot of headaches. If we had been given notice 3 or 4 months before and had been allowed to confer with the builder during the last days of construction, we would have been much more aware of the problems we were running into.

Also, we would have had less antagonism against the builder. I disagree with Mr. Gallett in one area where he discussed taking over the board immediately. I think the builders have some right to get this thing started early without intervention of many, many hands, but there is a point in construction and the FHA, as a matter of fact, made a directive that they would call preoccupany meetings when the projects were three-quarters complete, and they rescinded that.

There is a point where they should get in touch with the stockholders and tell them what has been done to date and at least give them representation at the finaling out.

The only alternative is, and it is possible the arguments of the builders might have credit, is to only allow public-spirited groups of citizens for their own benefit to form cooperatives. It probably would cut down to a great extent. That is why I am a little reluctant to suggest that as the only alternative.

Senator BUSH. Let me ask you a question: Did the promoters of your building have any written prospectus for this investment which you were about to make when you went down there to make your subscription? Did they give you anything in the nature of a prospectus like a broker might if you were going to buy some stock in a corporation?

Mr. MEDINE. None whatsoever.

Senator BUSH. Did they give you any estimate of what the running expenses would be; how much the porter service would be, how much the fuel cost for the building would be; did they give you any detailed list of their estimates so you could check them and see whether they were properly estimated in your judgment?

Mr. MEDINE. The only thing they gave us was the net price for my apartment; no breakdown.

Senator BUSH. No detail of any kind?

Mr. MEDINE. \$96 a month.

Senator BUSH. No details of the component parts of that estimate?

Mr. MEDINE. That is right. Even though I asked questions and asked, "Don't you have budgets to show how you arrive at \$96?" "No, those budgets aren't available."

Though it didn't happen to me, there were many cooperators who were turned down by the sales agent on specific information, and went to the Federal Housing Administration directly, and the law itself provided that they are supposed to give assistance to cooperators, and they were turned down there on getting the facts.

So that in my case I needed an apartment, and therefore I purchased it even though it was blind. That is what it amounted to.

Senator BUSH. Do you think it would be appropriate for the law to require, or for the FHA to require, by ordinance or regulation, that

in giving information concerning these section 213 projects that detailed information concerning the estimates which make up the so-called rental, annual rental, that such estimates and details should be required of the promoter of this project so that a man when he is deciding whether he is going to buy has some figures to look at?

Mr. MEDINE. Yes.

Senator BUSH. If you were going to buy newly issued stock in a corporation, the law requires that a prospectus give you all that information so that you know what is behind your investment. Why shouldn't the Government require a promotion of this kind, in which its credit is involved, why shouldn't it require that the promoter be required to give detailed information concerning those estimated costs?

Mr. MEDINE. I would go even further, Senator. Not only the essential information with regard to carrying costs, but I think that this prospectus should also include the financial structure of the corporation completely, so that we could get a balance-sheet view of it, as well as an operating viewpoint, so that I, as a prospective purchaser of stock, could go to an attorney or an accountant, or whoever I wanted, and say, "Now, here is the setup of what I am thinking of buying. What do you think?"

None of us had that opportunity. None of us had the opportunity of telling the architect the type of buildings we wanted. The architect was usually a member of the building concern.

I feel that the one thing in these section 213's has been poor architectural planning, poor layout, and development, which has caused a lower market value for our product. A better laid out project would be more beautiful to live in, and would have a higher market value.

Senator BUSH. Do you think it is possible for the FHA to establish minimum standards that would help correct that situation?

Mr. MEDINE. I certainly think it is.

Senator BUSH. You think it is possible for them to establish such minimum standards?

Mr. MEDINE. I do.

Senator BUSH. They don't have any at the present time?

Mr. MEDINE. They have standards, but I don't think their standards are appropriately administered. I will say it that way. I don't think that their inspections—I don't think that their approvals of analysis are correctly done or fairly done to the public who are the interested parties.

Mr. KENNEY. Do you think that the FHA requirements are sufficient although they are not properly enforced?

Mr. MEDINE. I have never had the opportunity to review all the FHA directives so that I can't really answer that question.

Mr. KENNEY. When you inspected this cooperative you saw the plans and specifications, I assume?

Mr. MEDINE. When I bought?

Mr. KENNEY. Yes.

Mr. MEDINE. No.

Mr. KENNEY. You didn't see the plans and specifications?

Mr. MEDINE. No.

Mr. SIMON. Did you know what the monthly carrying charges were?

Mr. MEDINE. Yes; they told me what I would have to pay down and what I would have to pay a month, and they showed me a site

development, a picture of nine houses, "pick out which house you want to live in." That is the way it was done. It was done in a rush. I tried to pinpoint the guy and ask him various questions about the development and he said, "It is not important."

I want to point out that the reason I bought was because if I had gone into rental housing, similar type of rental housing, I would have paid more, there is no question about it. There is no question that this is cheap housing. There is no profit involved. If a cooperative is really cooperative-minded, they can save money on various kinds of expenses by the cooperators doing the work.

The idea is wonderful, it is the answer to middle-income housing.

Senator BUSH. And presumably you are saving money because you are acquiring an equity in the property as you go along. If you stay in it for 10 years and want to sell, it should have more value.

Mr. MEDINE. That is a little questionable, because the equity I am gaining is offset by the depreciation.

Senator BUSH. That might be.

Mr. MEDINE. That is questionable. I feel that the carrying charges will always be lower than a rental development because there is never the profit element involved. However, that was the intent of Congress to make housing, cooperative housing, so that middle-income people could have good high-class housing at low rental.

When my rent goes up to 10 percent, I will be approaching rental housing. Then the differential won't be as great. If I had known originally that I would have to pay \$105 or \$110 for my apartment I might then have not gone into it because of the equity investment involved.

I speak for myself merely to show a specific example of a man going into a cooperative.

Senator BUSH. Fine.

Mr. MEDINE. I had occasion, as a friend—I want to impress that I have never done anything in a professional capacity here—I had occasion to go with the cooperator of a small development in Flushing to a meeting with the builder. This cooperator was a public-spirited citizen who had bought stock in the Murray Hill Cooperative in Flushing, a small development.

He wrote a letter to the board of directors, that is his board, asking for a stockholders' meeting so that he could find out something. In return he got a notice from the builder himself inviting him to a meeting. We went down there and we tried to impress upon the builder the importance of the meeting, and we were turned down.

Finally this man who wrote the correspondence to Senator Lehman and to Mr. Cole—I have attached a copy of this letter at the end of my brief—finally he gave up in despair because he didn't want to go in blind like I did, and he sold his stock.

He states it better than I can state it myself when he asks this question:

Is the FHA primarily concerned with the builders of section 213 developments or will the FHA take action to help the stockholders in these cooperatives to protect their interest?

I can give him the answer to that question, and in my experience the answer to that question is that they are primarily interested in the building industry and that they consider themselves an insuring agency, period, even though Congress didn't intend so.

I think that, not only with additional legislation but with carrying out the present legislation, we might be able to get a cooperative program which is workable and of public interest; in the interest of the public I really should say.

I would just like to point out one other phase of this problem which deals with an accounting method used by builders and then I will be finished.

I will give you a specific example of a cooperative in Brooklyn—Hamilton Cooperative. The tenants there, the stockholders there, put in 10 percent of \$1,600,000, the remainder from a mortgage, so that this corporation had \$1,600,000 available to build the building.

The builder entered into a contract with the cooperative, had \$1,665,000, a spread of \$65,000. That \$65,000 was supposed to be divided into three funds. Firstly, a fund of 1 or 1½ percent was supposed to be set aside for working capital to be turned over to the cooperative so when he started occupancy they would have some surplus funds.

Secondly, it was supposed to be used by the builder for carrying charges during construction.

Thirdly, any excess fund was also supposed to be turned over to the cooperative. In most cases the builder absorbed everything but the working capital and turned the working capital or a good portion of it over to the cooperatives.

But in this case—and it shows what has been done in some of these projects—the builder, when he turned over occupancy to the tenants, said, "It cost me \$140,000 to carry this property while I constructed it." Eighty or seventy-five thousand dollars more than was the difference between the contracts and the money available.

So he kept his own board of directors in there for 4 or 5 months, and I think he also kept their apartments vacant because in order to be on the board you must have an apartment. He dipped into the carrying charges. As people moved in they started paying their rents. He told the board to pay them back when they owed them, \$75,000. He dipped in to the tune of about \$24,000 before the residents themselves got up in arms and forced his board to resign and took over and sat down with them and finally adjusted the matter and the cooperatives got back \$16,000 of that \$24,000, but they were still left with \$8,000 that had no right to be used, plus certain other small items that it is of no importance to go into here.

Senator BUSH. He just gypped them; that is all.

Mr. MEDINE. Out and out. If I went deeper into these things—I haven't because my only connection is to attend these conference meetings and discuss these problems generally. I don't represent them, I don't have the time to spend on the detailed effort which your committee perhaps can spend. I have tried to get together my ideas in a brief here, but there are not too much specifications involved.

I urge you again and again to go forward and look into specific situations. I know you are doing it. I spoke to Mr. Condon and I know he has been up here very carefully surveying several of these cooperatives.

We all hope, the entire conference hopes, that you do go further and don't stop here. If I felt that way, if I felt that this was going to end at this point, I see no reason for testifying.

The real work as far as finding out the present abuses and curing them for the future is by a committee or people who have the power

to subpoena the records of the builder, to subpoena the records of the FHA to compare them, see if they corresponded in all phases.

Senator BUSH. I might say, of course, that the primary purpose of this investigation by this committee is to find out whether there should be any changes in the law, or any new law should be written to deal with this whole FHA situation. That is the purpose of the investigation. So naturally we are most interested in constructive suggestions and very helpful suggestions such as you have made, and I hope will make in this brief which I hope you will file with us, specifically recommending whatever you think might be incorporated into the law that would be helpful.

Mr. MEDINE. I certainly will, Senator.

Mr. KENNEY. The cooperative that you are a member of, is that based on a leasehold or on the fee?

Mr. MEDINE. It is based on the leasehold.

Mr. KENNEY. Do you consider that the leasehold plan has any advantages over the fee plan?

Mr. MEDINE. None that I can see. Of course, on the leasehold I don't know whether Mr. Gallett specifically told you, I know you have evidence, I know Mr. Simon mentioned that it is sometimes 6 to 8 times the land, but in Clearview it is, I think, the builder paid about three-quarters of a million dollars for land, and his lease is based on a value of \$2,100,000, which is far in excess of what he is entitled to.

The peculiar part of that is, he buys raw land. If he improved that land and paid for the improvements he is entitled to a lease on improved land, but he enters into a contract with a cooperative corporation and in that contract is the offsite improvements, so he is not paying 1 penny toward the improvement and yet he is getting the advantage in a leasehold.

As far as I am concerned, I think cooperatives generally would be much better off financially if they owned the fee rather than the leasehold.

Mr. KENNEY. It would require the additional expense which the fee would cost.

Mr. MEDINE. I appreciate that.

Mr. KENNEY. It would mean that they would have to put up probably 10 percent more down payment than they would have to otherwise.

Mr. MEDINE. That is correct. Of course, there is a possibility that he might be able to mortgage out the land just like a builder is mortgaging out the leasehold in some cases, but even so the larger the down payment for these cooperatives, the more advantageous the cooperative will be.

We who believe in the cooperative movement feel that down payments should be as large as possible to still sell the development.

One clear example, Queens View in Long Island City was built not by a speculative builder, not with FHA-committed money, but by a public-spirited group, people like Louis Pink, who was superintendent of insurance in New York; Abraham Kazan, who has been in cooperative housing for years. This development was built with conventional financing, the down payments were a little larger but in 5 years of operation they have only gone up 3 percent in their rents and that 3 percent is increased cost of living, but there is a comparative situation.

Mr. SIMON. Do they own the land their building is on?

Mr. MEDINE. I don't know the answer to that question. I think so, but I don't know.

Senator BUSH. The reference which you made to Mr. Condon a moment ago prompts me to say for the record that he is not a member of this committee staff, but is a member of the staff of Mr. Cole of the HHFA, who is the Administrator.

Mr. MEDINE. I made that statement because I presumed his information would be available.

Senator BUSH. I am not correcting you. I am just correcting the record. We are very glad that you spoke of him as you did, of course.

Are there any other questions, Mr. Simon?

Mr. SIMON. No.

Senator BUSH. Mr. Kenney.

Mr. KENNEY. Do you feel it would be possible for cooperative groups to go ahead on their own now and develop and consummate the cooperative enterprise?

Mr. MEDINE. I will answer that question: Unquestionably yes, if you have the right type of a group. There are many organizations today who will give aid to people who are really interested in promoting a cooperative. Of course, it is much more difficult to have a group of people to do it than to go out and have everything laid before you and just go and buy an apartment. It takes people with a lot of drive and a lot of incentive, but I hope and I think it certainly should be tried to let the law take its original intent, and let public-spirited citizens get together and form these cooperatives.

There are a lot of problems that these people meet in acquiring a site on which a speculative builder would have a lot more know-how, but there are a lot of agencies that will help public-spirited citizens to go forward.

I might add one other thing, that it has been proven that even in cases where the builder is more closely watched than he is watched under section 213, and that is on the cooperatives built under the New York State Division of Housing, that even in those cases there are builders who are willing to go into a project at a fair profit rather than what we think to be excessive profit. We don't have any express knowledge of it, but what we think to be excessive profit.

Senator BUSH. Thank you very much, Mr. Medine. Before you leave the stand I want to thank you very much, indeed, for your cooperation with this committee. It is very refreshing, indeed, to have that kind of cooperation that we have enjoyed from you today and previously as we did from your predecessor, Mr. Gallett. The committee is grateful to you. Thank you.

The witnesses for tomorrow will be Alexander P. Hirsh, of the Farragut Apartments, in Brooklyn, and Abraham Traub, of Vanderveer Estates, Brooklyn. Also Mr. George M. Halk, of the Drydock Savings Bank; Byron Hedges, staff investigator for the Banking and Currency Committee of the Senate; Charles Muss, of the Northbridge Cooperative at Jackson Heights; and finally Charles Punia, of Punia & Marx, builders in New York City.

Without objection, the committee will then stand in recess until 10 o'clock tomorrow morning.

(Whereupon, at 4:15 p. m. the committee recessed until 10 a. m., Wednesday, August 25, 1954.)

FHA INVESTIGATION

WEDNESDAY, AUGUST 25, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
New York, N. Y.

The committee met, pursuant to recess, at 10:05 a. m., in the north ballroom of the Hotel Astor, New York, N. Y., Senator Prescott Bush presiding.

Present: Senator Bush.

Also present: William Simon, general counsel; Thomas Kenney, assistant general counsel; and Richard Hogue, assistant counsel, FHA investigation.

Senator BUSH. The committee will please be in order.

The first witness before the committee today is Mr. Alexander P. Hirsch, the Farragut Gardens Apartments in Brooklyn. Will Mr. Hirsch please come forward.

Mr. MAYER. If the Chair please, my name is Gerald Mayer. I am attorney for Mr. Hirsch. I would ask the lights be extinguished and no photographs be taken, and that the witness' testimony not be interrupted, if you please sir, by flash pictures until the conclusion of his testimony.

Senator BUSH. Do you mind getting his pictures before, then; do you object to that?

Mr. MAYER. I would prefer that it be done later, if the committee please.

Senator BUSH. What is the difference between having it done now or then? They have got them and they are out of the way. If you have no objection I think the committee would prefer that.

Mr. MAYER. Well we do object, sir, to any newsreel pictures.

Senator BUSH. Well then none will be taken under those circumstances.

Mr. MAYER. If the press desire a photograph of Mr. Hirsch then they may do so.

Senator BUSH. Let him take his seat at the witness table and they can get their pictures and they will discontinue.

There will be no interruption by the photographers.

Mr. MAYER. That will be satisfactory.

Senator BUSH. Let us have him come forward.

Is Mr. Abraham Traub in the room?

Mr. WEISMAN. He is. I am Mr. Traub's attorney.

Senator BUSH. And Mr. Traub is here. We should like to have Mr. Traub come forward and be here in case any questions come up during this witness' testimony we might want to direct to Mr. Traub.

Mr. WEISMAN. If it please the Senator I would ask the committee's indulgence. I have been lately retained in this matter. If they need him we will put him there at once but I would ask Mr. Traub be next to me to keep me advised as the hearing goes on.

Senator BUSH. We have no objection to your accompanying him to the stand for that purpose.

Mr. WEISMAN. I will have to make notes. If there is the slightest need for him, Senator, I will be delighted to put him there at once.

Senator BUSH. The committee feels that it is essential in connection with this particular line of questioning to have Mr. Traub here so that we can expedite the hearing, that's all. There are some questions which we believe the witness may not be able to answer which we should like Mr. Traub to answer, and we believe it would expedite the hearings if we could proceed in that way.

Mr. WEISMAN. I assure you, Senator, we join with the committee in seeking to take every reasonable measure to expedite it, and upon the first occasion that it appears it will not take Mr. Traub more than 3 seconds; you will have him up there and you can have the benefit of his counsel and advice as we go on.

Senator BUSH. We do not want him running back and forth.

Mr. WEISMAN. He will not. Once we put him there if needed, I will consent he stay there. I do not want to have him popping up like a jack-in-the-box. I want to be fair, and help in the hearings.

Senator BUSH. I warn you we are going to have him there in just a few moments so it will simplify matters if he comes forward.

Mr. WEISMAN. I am a lawyer and have to take those chances, and the minute you need him you have him, Senator.

Senator BUSH. We need him now.

Mr. WEISMAN. Not yet.

Senator BUSH. Well, we won't quibble with you about it.

Mr. WEISMAN. Thank you; nor do I wish to quibble. I realize the seriousness of this and gravity of the matter and I want to cooperate and my client wishes to, and there is no quibbling on my part whatsoever, but I do assure you I am slightly unprepared.

Senator BUSH. Well, I am very sorry about that.

The committee will please be in order. Have these gentlemen finished their pictures?

Will you rise please and raise your right hand. Do you solemnly swear that the testimony which you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF ALEXANDER P. HIRSCH, FARRAGUT GARDENS APARTMENTS, BROOKLYN, N. Y., ACCOMPANIED BY GERALD MAYER, COUNSEL

Mr. HIRSCH. Yes, sir.

Senator BUSH. Now will you please give your name and address and identify yourself for the benefit of the clerk?

Mr. HIRSCH. Alexander P. Hirsch.

Mr. SIMON. Your address?

Mr. HIRSCH. 910 Fifth Avenue, New York City.

Senator BUSH. What was that again?

Mr. HIRSCH. 910 Fifth Avenue, New York.

Senator BUSH. 910 Fifth Avenue?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. What is your occupation, Mr. Hirsch?

Mr. HIRSCH. Manufacturer and realtor, industrialist.

Mr. SIMON. Are you acquainted with the Farragut Gardens project in Brooklyn?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. Who is the owner of the land on which that project is located?

Mr. HIRSCH. It is a corporation, sir.

Mr. SIMON. What is the name of the corporation?

Mr. HIRSCH. Nustrand.

Mr. SIMON. Nustrand Corp.?

Mr. HIRSCH. I think it's Nustrand Realty Corp.

Mr. SIMON. Who are the stockholders of Nustrand Realty Corp.?

Mr. HIRSCH. Henry Hirsch, Mr. Kavy, Mr. Benedict, and A. P. Hirsch. Mr. Louis Benedict is a partner with his brother and has some interest.

Mr. SIMON. And you and Henry Hirsch are brothers?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. Do you own 25 percent of the stock?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. Does your brother own 25 percent?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. Do the Benedicts own 25 percent?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. And Mr. Kavy owns the remaining 25 percent?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. Are you and your brother and Mr. Benedict all associated in business together?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. And this is your real-estate operations; they are the only operations in which you and Mr. Kavy are associated; is that right?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. And the other stockholders are in other businesses together?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. What is the capital stock of the Nustrand Realty Co.?

Mr. HIRSCH. I believe it is a nominal capitalization, Mr. Simon.

Mr. SIMON. What is your conception of a nominal capitalization?

Mr. HIRSCH. Well, nominal capitalization would be several thousand dollars.

Mr. SIMON. Do you know what the capital stock of Nustrand Realty Co. is?

Mr. HIRSCH. No, sir.

Mr. SIMON. Who incorporated Nustrand Realty Co.?

Mr. HIRSCH. Mr. Traub.

Mr. SIMON. I think, Senator, if we may at this point—

The CHAIRMAN. Mr. Traub, will you come forward?

Mr. WEISMAN. We are prepared to fulfill our commitment.

Senator BUSH. Mr. Traub, will you rise please and raise your right hand. Do you solemnly swear the information, the testimony which you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF ABRAHAM TRAUB, FARRAGUT GARDENS, BROOKLYN, N. Y., ETC., ACCOMPANIED BY MILTON C. WEISMAN, COUNSEL

Mr. TRAUB. I do.

Senator BUSH. Will you also give your name, please, and address?

Mr. TRAUB. Abraham Traub, 16 Court Street, Brooklyn, N. Y. That is my office address. Residence is 1620 Avenue I, Brooklyn.

Mr. SIMON. Mr. Traub, I believe you were the attorney who incorporated Nustrand Realty Co.?

Mr. TRAUB. I was.

Mr. SIMON. What was the capital stock of Nustrand Realty Co.?

Mr. TRAUB. To the best of my recollection I think it was \$5,000.

Mr. SIMON. Five thousand dollars?

Mr. TRAUB. Yes.

Mr. SIMON. Now Mr. Hirsh, did Nustrand Realty Co. buy the vacant land on which the Farragut Apartment project was later built?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. Who did it buy the land from?

Mr. HIRSCH. I think——

Mr. SIMON. Was it the Brooklyn waterworks?

Mr. HIRSCH. It was the waterworks something.

Mr. SIMON. What was the purchase price?

Mr. HIRSCH. I believe the purchase price was somewhere between a million and million seven.

Mr. SIMON. Was it exactly \$1,600,000? I might add I believe you had about \$200,000 of expenses in connection with the property after you acquired it, but wasn't the price \$1,600,000?

Mr. TRAUB. It was \$1,600,000.

Mr. SIMON. How much land was acquired for that \$1,600,000? Do you know, Mr. Hirsch?

Mr. HIRSCH. In acreage? No, sir.

Mr. SIMON. Well, in any other manner that you can describe it.

Mr. TRAUB. A million, six hundred thousand square feet.

Mr. SIMON. Subsequently was a part of that land sold to the city of New York?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. And did the city of New York pay \$440,000 for that land?

Mr. HIRSCH. I believe that was the figure.

Mr. SIMON. Then subsequently another portion was sold——

Mr. WEISMAN. Mr. Simon, I do not know if it makes any difference, but the witness is under oath. It wasn't sold, Mr. Traub informs me, it was condemned by the city of New York.

Mr. SIMON. And the city paid \$440,000 in the condemnation?

Mr. WEISMAN. That's right.

Mr. SIMON. Subsequently was another part of the land sold to other interests for stores?

Mr. HIRSCH. Yes; it was sold.

Mr. SIMON. It was sold. And how much did you get for that piece of land? I might add I have 2 statements here, one of which says you got \$285,000, and the other says you got \$142,000 for it.

Mr. HIRSCH. Yes, I think the original price was the first one and subsequently it was sold again.

Mr. SIMON. It was sold for \$285,000?

Mr. HIRSCH. Sold to another—the original corporation sold it for \$142,000 and subsequently sold it for—

Mr. SIMON. How much did Nustrand get when it sold it?

Mr. HIRSCH. I believe \$142,000.

Mr. SIMON. Who did Nustrand sell it to?

Mr. TRAUB. My recollection is Nustrand sold that property to the individuals for stockholders for \$142,000 or \$152,000—I don't know the exact amount, and then the stockholders sold it to a corporation that ultimately built a taxpayer for two hundred and eighty some odd thousand dollars.

Mr. SIMON. What was the reason, Mr. Hirsch, for having the corporation sell it to yourself for exactly half of the price that you then sold it to the strangers for?

Mr. HIRSCH. Well, I believe we are going to build and we had made the plans for it, and we sold the plans and everything connected with it. We were going to build that parcel and decided later not to build.

Mr. SIMON. And then you and your three partners received \$285,000 selling it; is that right?

Mr. TRAUB. I think that's the price.

Mr. SIMON. Well, if we take the \$1,600,000 you paid for it and subtract the \$440,000 that you got from the city of New York, and the \$285,000 that you got when you sold the land, the net cost was \$875,000; is that right?

Mr. WEISMAN. Would you repeat the figures?

Mr. SIMON. If we take the \$1,600,000 you paid for the entire tract and subtract the \$440,000 you received from the city of New York and the \$285,000 that you received when you sold the land—

Mr. WEISMAN. It seems to me your mathematics are erroneous; that's why I asked you to repeat your figures. I thought I had missed them. It's over a million—you gave us a figure of less than a million.

Senator BUSH. \$440,000 plus \$285,000 is \$725,000. If you subtract that from the million, six—

Mr. WEISMAN. I was subtracting the first sale. I beg your pardon.

Senator BUSH. It would leave \$875,000.

Mr. SIMON. And \$875,000 is the net cost to your group of 4 people.

Mr. HIRSCH. There are other expenses, Mr. Simon.

Mr. SIMON. I'm going to get to that in a minute. But that \$875,000 is the net cost to you, your group, of the land Farragut Apartments project is built on; is that right? And I'm happy to add right now you had about \$200,000 of additional expenses connected with the land before you built the buildings. Is that right?

Mr. HIRSCH. It seems to me it was more than that.

Mr. SIMON. Well, do you know? Do you know, Mr. Hirsch?

Mr. HIRSCH. No. We submitted costs on that, Mr. Simon, in the papers.

Mr. SIMON. Well, I'm asking you if that's true, or if you know?

Mr. HIRSCH. I don't remember those figures.

Mr. SIMON. Well, let's start with the first set of figures; the \$1,600,000 is correct, is it not?

Mr. HIRSCH. That's right.

Mr. SIMON. The \$440,000 that you got from the city of New York is correct, isn't it?

Mr. HIRSCH. That's right.

Mr. SIMON. The \$285,000 that you got on the sale of the land is correct, isn't it?

Mr. HIRSCH. Well, Nustrand received \$142,000.

Mr. SIMON. You received \$285,000, didn't you?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. Then \$875,000 is the net cost to you and your three associates of the land the building is built on; is that right?

Mr. HIRSCH. Yes; but that wasn't the corporate cost.

Mr. SIMON. That's the net cost of the land, isn't it? That's what the land cost you; is that right?

Mr. HIRSCH. But not to the corporation, Mr. Simon.

Mr. SIMON. Isn't that what it cost? I grant you had some more expenses, but isn't \$875,000 what the land cost?

Mr. HIRSCH. You're figuring \$44,000 and deducting it from the—

Senator BUSH. Original cost.

Mr. HIRSCH. Original cost.

Senator BUSH. That's right.

Mr. HIRSCH. Well, there's a profit in that, Senator.

Mr. SIMON. Of course there was a profit in it. We will show there are lots of profits.

Senator BUSH. Maybe I can help on this. You put up \$1,600,000, and through sales you took out \$725,000, so the cost, the remaining cost for what you had left, was \$875,000. You took out \$725,000, so you still had \$875,000 in it.

Mr. WEISMAN. Senator, I think the trouble with this witness is that the word "net" bothers him because between the time of the purchase and the time of the sale there were certain intervening costs.

Mr. SIMON. I have said three times we will get to that.

Mr. WEISMAN. But when you use the word "net," Mr. Simon, net means after costs, I assume, in business nomenclature.

Mr. SIMON. Of the net purchase price of the land.

Mr. WEISMAN. I think if you say the net purchase price that might clear it up.

Mr. SIMON. Does that help you, Mr. Hirsch? Was \$875,000 the net purchase price for the land on which Farragut Gardens was built?

Mr. HIRSCH. According to your calculation.

Mr. SIMON. No. I'm asking you if that's right. I'm not the witness.

Mr. MAYER. I think, Mr. Simon, what troubles Mr. Hirsch is this: He bought this property, this land, sold off two portions to matters unrelated to FHA or section 608. When he made those sales he regards that portion or what profit he made on a straight-line distribution or aliquot portion that was sold as a profit unrelated to FHA and unrelated to section 608's. Accordingly, he recognizes as his true cost of the land used in these projects the percentage of the land, if you please, that was allocable to the total purchase price of one-six plus these approximate \$200,000 improvements.

Mr. SIMON. I don't think we have time to argue about where you are going to place it, which pocket you put the profits in.

Is it a fact that you paid \$1,600,000 for the entire tract?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. And is it a fact that you sold part of the tract and you received \$725,000 for the part you sold? Is that right?

Senator BUSH. Two pieces.

Mr. SIMON. Two pieces, the two pieces that were condemned by the city and sold for the stores?

Mr. HIRSCH. Approximately.

Mr. SIMON. Is it exactly right, \$725,000?

Senator BUSH. Well you just said a little while ago that it was. I don't see what your problem is here, Mr. Hirsh. It's obvious from the figures—

Mr. HIRSCH. This is a corporation and Mr. Simon says you—

Mr. SIMON. I'm asking you if the moneys that were received by Nustrand Realty, Hirsch, Hirsch, Benedict & Kavy, who were the stockholders of Nustrand Realty—was it received?

Mr. HIRSCH. Are you talking of them as stockholders or corporation or as individuals? There's a difference, Mr. Simon.

Mr. SIMON. Aren't the four of you the stockholders of Nustrand?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. All right. How much did this group receive for the land you sold?

Mr. HIRSCH. The figure you stated.

Mr. SIMON. That's \$725,000?

Mr. HIRSCH. Yes. That is the corporation plus the individuals.

Mr. SIMON. And then are the additional expenses that you talk about in connection with street widening, lawyer's fees, title expenses, is that \$163,000?

Mr. HIRSCH. I don't know the exact figures.

Mr. SIMON. Do you know how much it was? Do you have any idea how much those expenses were?

Mr. HIRSCH. No, sir.

Mr. SIMON. You don't know?

Mr. HIRSCH. No. Somewhere in the neighborhood of \$200,000.

Mr. SIMON. Now, when you decided to build the Farragut Apartments project did you turn the land into that corporation or was it a 99-year lease?

Mr. HIRSCH. Which corporation?

Mr. SIMON. Well, Nustrand owned the land; is that right?

Mr. HIRSCH. Owned the land; yes, sir.

Mr. SIMON. Then you had the Farragut Co. build the building; is that right?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. Did the building corporation acquire the title to the land or merely a lease to the land?

Mr. HIRSCH. Lease.

Mr. SIMON. And the FHA-insured buildings were built merely on a leasehold; is that right?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. And you and your people still own the lands that the buildings are built on; is that right?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. In connection with the FHA mortgage, at what value did FHA put on this land? What value did they put on it?

Mr. TRAUB. My recollection is \$1,900,000.

Mr. SIMON. \$1,900,000; and after FHA gave you that value on the land did you then put a mortgage on the land apart from the FHA mortgage?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. And was that mortgage \$1,732,400?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. So that the mortgage that you received on the land was about \$600,000 in excess of the money you had invested in the land; is that right?

Mr. HIRSCH. According to your calculations of course, which we don't share.

Mr. SIMON. According to my calculations it is \$700,000—and I was giving you the benefit of your putting the money in one pocket and not saying it is a profit—but if you want to adopt my theory it's \$700,000. On what I assumed is your theory it is only \$600,000. Then you applied for FHA mortgages on the leasehold; is that right?

Mr. HIRSCH. What is that?

Mr. SIMON. I say you then applied for FHA mortgages on the leasehold.

Mr. HIRSCH. Yes.

Mr. SIMON. And were there five corporations that applied for these mortgages?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. What were the names of those corporations?

Mr. HIRSCH. Farragut Gardens No. 1 through 5.

Senator BUSH. Farragut Gardens 1, 2, 3, 4, and 5?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. What was the mortgage commitment of FHA on Farragut Gardens No. 1?

Mr. HIRSCH. \$4,411,200.

Mr. SIMON. And how much did it cost Farragut Gardens No. 1 to build that building?

Mr. HIRSH. \$3,834,502.98.

Mr. SIMON. Are you sure it isn't \$3,489,506?

Mr. HIRSCH. Well, that was the cost of construction—

Mr. SIMON. What other costs did you have other than the cost of construction?

Mr. HIRSCH. We had financing costs.

Mr. SIMON. Are you sure the figure I gave you doesn't include your financing costs?

Mr. HIRSCH. It does not, Mr. Simon.

Mr. SIMON. Mr. Hirsch, isn't it a fact that within a year after you built these buildings you raised the cost of the building on your books by \$400,000, just arbitrarily raised it?

Mr. HIRSCH. No, sir.

Mr. SIMON. When was Farragut Gardens No. 1 finished?

Mr. HIRSCH. I don't know the exact date, sir.

Mr. SIMON. Well, if you will examine your own balance sheet, the first balance sheet after the building was finished, and compare it

with your own balance sheet of a year later you will find that the cost of the building was written up by \$400,000; isn't that right?

Mr. HIRSCH. Well, will you explain what that means, Mr. Simon?

Mr. SIMON. I don't know what it means. All I know is your balance sheets. I have before me a photostat copy of a balance sheet of Farragut Gardens No. 1, Inc., as of July 31, 1950, and it says that the cost—mind you, the cost—of the building, was \$2,709,482 and then it gives the cost of the fixed assets and the cost of the portable assets, and that gets up to \$3,446,000. That is the balance sheet as of July 31, 1950.

Then I have a balance sheet of July 31, 1951, just a year later, which says that the cost of the buildings was \$3,549,000, which is \$850,000 more than the balance sheet showed as cost a year earlier. Can you explain that?

Mr. MAYER. Which Farragut is this, Mr. Simon?

Mr. SIMON. Farragut No. 1.

Mr. MAYER. All of these figures are with respect to Farragut No. 1?

Mr. SIMON. That is correct.

Mr. MAYER. I don't know—I would like to give you, Mr. Simon, something prepared by the accounting staff—

Mr. SIMON. I would like to have the witness answer my question if I may.

Mr. MAYER. Sure. This is for ready reference and represents a summary of the various items of cost that went into Farragut.

Mr. SIMON. Thank you, but I would appreciate it if the witness could answer my question.

Mr. HIRSCH. I cannot answer it.

Mr. SIMON. Isn't it a fact, Mr. Hirsch, that after the buildings were built, in order to distribute the excess of mortgage money over the cost of the building you wrote up the value of the buildings? You wrote up the cost on your books?

Mr. HIRSCH. Well, if that is an accounting procedure. I suppose that is the way the accountants do it.

Mr. SIMON. I was not there, Mr. Hirsch. I am asking you if that is what took place?

Mr. HIRSCH. I don't know if that took place. If that's in accordance with our—

Mr. SIMON. Well, I will be glad to show you these. We went over this once before and they do show, I think, as you found out once before, that increase in cost as shown by your books after the building was finished. Now do you know whether they wrote up the costs after the buildings were finished in connection with a distribution?

I have just handed you, Mr. Hirsch, what purports to be a photostat copy of your own balance sheet as of July 31, 1950, and what purports to be a copy of your own balance sheet as of July 31, 1951, and ask you if the latter sheet doesn't show the cost as about \$850,000 more than the earlier one? And I ask you if that wasn't written up?

Mr. HIRSCH. I couldn't—

Mr. SIMON. I might add, for your information, Mr. Hirsch, that in 1950 that Farragut No. 1 paid you a dividend of \$864,000; is that true?

Mr. HIRSCH. I don't know what year, Mr. Simon.

Mr. SIMON. Did it pay you a dividend of \$864,000? That is, you would receive a quarter of that and the other stockholders their portionate shares.

Well, did you get the dividend, Mr. Hirsch?

Mr. HIRSCH. Yes; I remember we got a dividend.

Mr. SIMON. Of \$864,000 for Farragut No. 1?

Mr. HIRSCH. That was the figure we testified before; that's the exact figure.

Mr. SIMON. Well, is that the figure?

Mr. HIRSCH. I don't know the figure for the entire five——

Mr. SIMON. Well, for the 5 corporations is the dividend \$3,158,000?

Mr. HIRSCH. That's right.

Mr. SIMON. That's correct?

Mr. HIRSCH. That's correct.

Mr. SIMON. And that was paid out of the difference between the mortgage and the cost of construction; is that right?

Mr. HIRSCH. That's right.

Mr. SIMON. Isn't it a fact, Mr. Hirsch, that at the time you paid those dividends you wrote up on the books the cost of the buildings by an approximately equal amount?

Mr. HIRSCH. Well, that's an accounting procedure when we write up the cost.

Senator BUSH. Well the accountants can't write it up without the authority of the directors, Mr. Hirsch. Did you authorize the increase in that statement?

Mr. HIRSCH. I'm not familiar, Senator——

Mr. SIMON. Are you a director, Mr. Hirsch?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. Who are the other directors?

Mr. HIRSCH. Mr. Henry Hirsch, Kavy, and Benedict.

Mr. SIMON. Mr. Traub, do you know whether the cost of the building on the books was written up at the time the dividends were paid?

Mr. TRAUB. I do not.

Senator BUSH. Were you a director?

Mr. TRAUB. No, sir.

Mr. SIMON. Mr. Hirsch, can you give us any explanation of why the cost as shown on the 1951 balance sheet should be \$850,000 more than the cost as shown on the 1950 balance sheet?

Mr. HIRSCH. If you find out why they use that terminology, Mr. Simon——

Mr. SIMON. Of course we went through all this about 6 weeks ago in Washington and hadn't you been curious since then to find out?

Mr. HIRSCH. Well, I always figured that was the way the accounts do it.

Mr. SIMON. I see. Now on the 5 projects, 5 corporations, it's all 1 project, or 5 separate corporations; is that right? There are roughly 2,500 apartments in the project?

Mr. HIRSCH. That's right.

Mr. SIMON. What was the total mortgage?

Mr. HIRSCH. \$21,719,300.

Mr. SIMON. And what was the cost as shown by the books of the corporation? Was it \$18,118,987?

Mr. HIRSCH. That is only true of the construction costs. The actual money received, total cost as we have it down here, including——

Mr. SIMON. Well is the construction cost, Mr. Hirsch, is the construction cost \$18,118,987?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. All right. And did you, in the 5 corporations distribute to the stockholders \$3,158,000?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. And then did you write up the cost on the books, \$3,800,313?

Mr. HIRSCH. I don't know the accounting procedure, Mr. Simon.

Mr. SIMON. These buildings were built by the Reston Corp., were they?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. Who are the stockholders of the Reston Corp.?

Mr. HIRSCH. Same stockholders as the Farragut.

Mr. SIMON. There were five Reston corporations?

Mr. HIRSCH. Correct.

Mr. SIMON. And did each of them get a fee of \$40,000 for building the building?

Mr. HIRSCH. Well, approximately, yes.

Mr. SIMON. Was it exactly \$40,000?

Mr. HIRSCH. I don't know whether it is \$35,000 or \$40,000. Forty is correct.

Mr. SIMON. Forty times five would be \$200,000 that they got in fees; is that right?

Mr. HIRSCH. That's right.

Mr. SIMON. Did you get any premium on the mortgages for buildings 1, 2, and 3?

Mr. HIRSCH. No, sir.

Mr. SIMON. No premium on 1, 2, and 3 at all?

Mr. HIRSCH. No, sir.

Mr. SIMON. Was there a premium on building No. 4?

Mr. HIRSCH. I don't think we received any premiums.

Mr. SIMON. My question was not whether you received it but whether there was a premium on 1, 2, and 3?

Mr. HIRSCH. Well, as far as I know we received no premium.

Mr. SIMON. No, no, that, was not my question. Was there a premium?

Mr. HIRSCH. As far as I know we received no premium.

Mr. SIMON. I appreciate that but what I am trying to find out is whether a premium was paid by the lender?

Mr. HIRSCH. Well—

Mr. SIMON. And if there was, then I'd next like to know who got it, but I first want to know whether there was a premium.

Mr. TRAUB. I can answer that. There was a premium paid on 1, 2, 3, and 4.

Mr. SIMON. What was the amount of the premium, Mr. Traub?

Mr. TRAUB. On 1, 2, and 3, the premium if my recollection serves me correctly, was 1½ percent. On No. 4 it was 1 percent. On No. 5 there was no premium. As a matter of fact there was a loss of a half of 1 percent.

Mr. SIMON. Well now the premium on 1, 2, 3 then would be very roughly \$150,000?

Mr. TRAUB. If that is what 1½ percent is.

Mr. SIMON. Who got that \$150,000?

Mr. TRAUB. There were two brokers who shared that \$150,000.

Mr. SIMON. Who were they?

Mr. TRAUB. Punia & Marx, and a person by the name of Tichenor.

Mr. SIMON. Tichenor?

Mr. TRAUB. Tichenor.

Mr. SIMON. And there was a premium of \$140,000 on No. 4. Who got that premium?

Mr. TRAUB. Punia & Marx.

Mr. SIMON. Why did Punia & Marx, and Tichenor get these premiums of about \$275,000? Why them rather than the corporation?

Mr. TRAUB. Punia & Marx were the processing brokers of the Farraguts. Prior to the commencement of the construction of the Farraguts there was an agreement entered into wherein they were to receive three-quarters of 1 percent for the processing of the applications and the financing, provided there was no premium paid. If there was a premium paid they were to get up to 1 percent and the balance paid over to the corporation.

Mr. SIMON. If these figures that we have just gone through, Mr. Hirsh, show that the mortgage exceeded the building costs by \$3,600,000, that the stockholders actually received \$3,158,000 from these corporations in dividends, they received \$200,000 by way of construction profits in the Reston corporations, and either six or seven hundred thousand dollars, depending on whether you take my computation or your computation, on the excess of mortgage on the fee over the cost of the fee, so that by the time the buildings were completed the stockholders had \$4 million out of the building, in excess of \$4 million, either on my figures or your figures, in addition to the cost; is that right? They had taken out \$4 million after paying all the costs, is that right?

Mr. HIRSCH. No. The stockholders——

Mr. SIMON. Is that right?

Mr. HIRSCH. Counsel says that's substantially correct, a substantially correct statement.

Senator BUSH. You say it's substantially correct? Is that your statement?

Mr. HIRSCH. Yes.

Senator BUSH. We can't quite hear you. If you pull that thing forward or lean a little forward it would help us all.

Mr. HIRSCH. Very good, sir.

Mr. SIMON. Mr. Hirsch, what was the capital stock of Farragut No. 1?

Mr. HIRSCH. Each was capitalized at \$2,000.

Mr. SIMON. And that was the only capital ever put into the company; is that right?

Mr. HIRSCH. The only capital stock.

Mr. SIMON. Yes. Now I take it that to get this thing started you or some of your associates might have made some loans but they were all repaid out of the mortgage money; is that right?

Mr. HIRSCH. We made some very substantial loans and the capital risk there was over \$3 million on our part.

Mr. SIMON. Will you itemize that for us? We can find no evidence to support that.

Mr. HIRSCH. Well, we had to put up—

Mr. SIMON. Will you give us the dates on which you paid out the \$3 million?

Mr. HIRSCH. We can obtain that for you. I don't have it.

Mr. SIMON. We asked you that 6 weeks ago again.

Mr. HIRSCH. I don't recollect.

Mr. MAYER. I beg pardon, Mr. Simon, I'd like to know where you did ask us for that information. I have the previous record here.

Mr. SIMON. I will be glad to give it to you, but at the moment, can you tell me when you paid out the \$3 million?

Mr. HIRSCH. The dates? No, sir. We will get it for you.

(The information referred to follows:)

DATA RECEIVED FROM THE LAW FIRM OF MAYER, RIGBY & SEELEY, WASHINGTON, D. C., BY TELEPHONE

Re advances made by Alexander P. Hirsh and other sponsors on behalf of Farragut Gardens projects in Brooklyn, N. Y.:

Period from November 1947 to October 1949

Surety bond endorsed in October 1949-----	\$440, 151
Endorsements of loans:	
Bank of Manhattan:	
June 1949-----	\$295, 000
August 1949-----	290, 000
October 1949-----	242, 000
Do-----	302, 000
	<hr/>
	1, 129, 000
Montrose Industrial Bank, 3 notes totaling-----	200, 000
Bensonhurst National Bank, 1 note-----	75, 000
Endorsement of orders for subcontractors' paper, approximately-----	1, 300, 000
	<hr/>
Total endorsements-----	3, 144, 151

Mr. SIMON. Isn't it a fact that these corporations borrowed some money and you guaranteed the notes?

Mr. HIRSCH. That's right.

Mr. SIMON. That's what you are talking about, isn't it?

Mr. HIRSCH. That's right, plus the guaranteeing of notes to contractors before we received any money from the mortgage money.

Mr. SIMON. Yes. When the buildings were finished you had a capital-stock investment of \$15,000; is that right? Two thousand dollars apiece in the five Farraguts and \$5,000 in Nustrand; is that right?

Mr. HIRSCH. Capital Stock, Mr. Simon?

Mr. SIMON. Capital-stock investment. When the buildings were finished all loans had been repaid out of the mortgage money and any obligations you had guaranteed had been discharged; is that right?

Mr. HIRSCH. Yes, sir; after the completion. Yes, sir.

Mr. SIMON. That's right. And on your investment you had received a return of \$4 million; is that right?

Mr. HIRSCH. I would say \$3,158,000.

Mr. SIMON. Didn't you get \$200,000 in the Restons as a construction fee?

Mr. HIRSCH. Well the Restons, of course, kept that money; we didn't get the money.

Mr. SIMON. You own the stock in Reston, don't you?

Mr. HIRSCH. Yes. What I meant, no dividend has been declared.

Mr. SIMON. It's sitting in the bank and you can pay it out any time you want, can't you? Is that right?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. And you got \$600,000 or \$700,000 depending on how you figure it, in the Nustrand of excess of mortgage over land cost, didn't you?

Mr. HIRSCH. No. Except there again no dividends have been paid.

Mr. SIMON. But it's your money, you can take it out any time you want, can't you?

Mr. HIRSCH. Well, if we don't lose it.

Mr. SIMON. As a matter of fact you have invested that money in a lot of other buildings, haven't you?

Mr. HIRSCH. That's right.

Mr. SIMON. And it's now parlayed into a much greater value; is that right? Is that right?

Mr. HIRSCH. No, sir.

Mr. SIMON. Isn't it?

Mr. HIRSCH. Well, some money we lost too.

Mr. SIMON. Yes, but you made money on the \$600,000, didn't you?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. All right. But regardless of what you did with the money, when the buildings were finished you had \$4 million profit; is that right?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. You had a \$15,000 capital investment in the buildings; is that right?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. And you still own the buildings; is that right? You still own these buildings don't you, Mr. Hirsch?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. The reason I want to make that clear is that normally people refer to a profit on a transaction when you sell the property but this was a sum of money that you got out and still owned the property?

Mr. HIRSCH. Part of the money we got out.

Mr. SIMON. Well, you could have taken it all out if you wanted to; is that right?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. There's no personal liability on any of you to ever repay any of this mortgage money; is that right?

Mr. HIRSCH. I don't think there's any liability on our part at all; no liability.

Mr. SIMON. No liability to repay the mortgage. If any one of these buildings, any one of these projects goes bad you can turn it back to the Government and keep the others; is that right?

Mr. HIRSCH. Yes. We can do that but we haven't done it.

Mr. SIMON. I see. But you can do that?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. And if they all go bad you still own the lands underneath the buildings?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. Your estimated cost to the Federal Housing Administration on which these mortgages were based, and FHA's estimated cost of these projects, was \$24 million; is that right?

Mr. HIRSCH. I never saw the figures.

Mr. SIMON. Well, you know that the law said that the mortgage could not exceed 90 percent of the estimated cost. You knew that, didn't you?

Mr. HIRSCH. I am not too familiar with FHA regulations.

Mr. SIMON. Didn't you know that the law, not the regulations, but the law that Congress passed, said that the mortgage could not exceed 90 percent of the estimated cost? Did you know that, Mr. Hirsch?

Mr. HIRSCH. Well, I have heard that since; yes.

Mr. SIMON. But you did not know it at the time?

Mr. HIRSCH. No.

Mr. SIMON. I take it you knew it, Mr. Traub?

Mr. TRAUB. Yes; I did.

Mr. SIMON. Did you ever see the applications that were filed for these FHA mortgages?

Mr. HIRSCH. No, sir, except the one that you showed me.

Mr. SIMON. You never saw them?

Mr. HIRSCH. No, sir.

Mr. SIMON. And you didn't know that they estimated the cost of these projects at \$24 million?

Mr. HIRSCH. No, sir.

Mr. SIMON. I take it you will agree with the mathematics that if the loans could only be 90 percent of the estimated cost, the estimated cost had to be \$24 million plus?

Mr. HIRSCH. Yes.

Mr. SIMON. Can you give us any explanation of why the actual cost turned out to be \$18 million, when the estimates, both of your people and FHA, were \$24 million? There is a difference there of 25 percent. Senator Bush pointed out 33 percent, if you take it on the percentage of actual cost, or 25 percent if you take it on the percentage of estimated cost.

Do you have any explanation for that wide divergence? Can you give us any explanation of that, Mr. Hirsch?

I might add that my differences are after giving you credit for the \$200,000 builder's fees that you paid the Restons. If we were going to ignore that, the difference would be widened by \$200,000.

Mr. HIRSCH. I don't think that your figures are correct, Mr. Simon.

Mr. SIMON. Oh, aren't they? I got them from your audit reports. Your audit reports show cost at \$18,118,000.

Mr. MAYER. That is correct with respect to the cost to Reston. There are in addition to that, on the sheet I gave you on the aggregates of the 5 projects, approximately \$500,000 for mortgage-financing cost, which is excluded from the Reston corporations, since they were not charges to Reston but rather were charges to Farragut.

Mr. SIMON. \$6 million—that does not come very far in explaining it. It is less than 10 percent of the difference.

Can you explain how that wide difference came about, Mr. Hirsch?

Mr. HIRSCH. I understood that there were builders' and architects' fees included in that commitment, as you showed it to me.

Mr. SIMON. Would that explain the \$6 million? You did pay builder's fee, and I have given you credit for your builder's fee here. Did you know, Mr. Hirsch, that about the same time, or shortly after, that

you and FHA were so far off on these estimates that the Drydock Bank made an estimate of the cost of construction of this building which was pretty close to your actual costs?

Did you know that?

Mr. HIRSCH. No, sir.

Mr. SIMON. You didn't know that?

Mr. HIRSCH. No.

Mr. SIMON. Before the buildings were built, did the company sign contracts with Reston Construction for the construction of these buildings?

Mr. HIRSCH. I have been told so.

Mr. SIMON. As a director, did you approve of those contracts?

Mr. HIRSCH. I was not president at the time.

Mr. SIMON: Do you know whether the minutes of the corporation show that you voted to approve those contracts?

Mr. HIRSCH. With Reston?

Mr. SIMON. Yes, between Farragut and Reston.

Mr. HIRSCH. I have to look at the minutes, Mr. Simon.

Mr. SIMON. Do you know whether you participated in approving them?

Mr. HIRSCH. I don't remember it.

Mr. SIMON. Do you know whether contracts were entered into between Farragut and Reston which were presented to FHA for their approval and then immediately after they were approved by FHA were ignored and abandoned?

Mr. MAYER. There are two questions there, Mr. Simon. I wish you would break up the one and the other.

Mr. SIMON. I will make it simple. Isn't it true, Mr. Hirsch, that these companies signed lump-sum contracts, presented them to FHA and then amended the contracts after they had been approved by FHA to make them cost-plus a \$40,000 fee?

Mr. MAYER. You have got three questions in there, Mr. Simon. He would have to give an essay to answer all three.

Mr. SIMON. We merely want to know what happened.

Mr. HIRSCH. I never saw the applications, I never estimated the applications.

Mr. SIMON. I am talking now about the contracts.

Mr. HIRSCH. That is the only time I have ever seen the contracts.

Mr. SIMON. When?

Mr. HIRSCH. When you showed them to me.

Mr. SIMON. About 6 weeks ago in Washington?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. Have you ever seen the buildings, Mr. Hirsch?

Mr. HIRSCH. Yes, I saw them.

Mr. SIMON. When?

Mr. HIRSCH. When they were first constructed.

Mr. SIMON. The first building I think you saw?

Mr. HIRSCH. Yes.

Mr. SIMON. How many buildings are there?

Mr. HIRSCH. There are 5 projects, 12 buildings, and of those 12—that is right, 5 projects, 12 buildings in each project.

Mr. SIMON. Sixty buildings?

Mr. HIRSCH. Yes.

Mr. SIMON. I believe you saw the first one when it was being constructed?

Mr. HIRSCH. Yes.

Mr. SIMON. Have you ever seen the other 59?

Mr. HIRSCH. I drove around them.

Mr. SIMON. When was that?

Mr. HIRSCH. Several years ago.

Mr. SIMON. Have you been back there since several years ago?

Mr. HIRSCH. No, sir.

Mr. SIMON. How many times have you ever been out there?

Mr. HIRSCH. Once or twice.

Mr. SIMON. Have you ever been in the buildings after they were completed?

Mr. HIRSCH. Just in this one.

Mr. SIMON. In the one building?

Mr. HIRSCH. Yes.

Mr. SIMON. You have never been in the other 59?

Mr. HIRSCH. No, sir.

Mr. SIMON. Mr. Hirsch, the head of the Federal Housing Administration for the United States, the top man in rental housing was a man named Clyde L. Powell. Do you know what part he played in the granting of these applications?

Mr. HIRSCH. No, sir.

Mr. SIMON. Do you know whether the applications were ever under his jurisdiction for approval?

Mr. HIRSCH. No, sir.

Mr. SIMON. Do you know whether these applications were processed here locally in New York, or whether they were processed in Washington by Mr. Powell?

Mr. HIRSCH. No, sir.

Mr. SIMON. You don't know one way or the other on that?

Mr. HIRSCH. No, sir.

Mr. SIMON. Did you have anything to do with the processing of the applications?

Mr. HIRSCH. No, sir.

Mr. SIMON. If any funds reached Mr. Powell out of this project, do you know anything about it?

Mr. HIRSCH. I don't think any funds would have gone to anyone.

Mr. SIMON. Certainly some funds went to somebody. You yourself got a fair amount of these funds?

Mr. HIRSCH. Oh, I see what you mean. That was a dividend.

Mr. SIMON. But if any of the funds of this project went to Mr. Powell, do you know anything about it?

Mr. HIRSCH. No, sir.

Mr. SIMON. And you are not in a position to say one way or another; is that it?

Mr. MAYER. I think the question is already answered, Mr. Simon.

Mr. SIMON. There are a very substantial number of items charged to this project, which are represented by checks payable to cash, cashed at the bank by Mr. Traub. Do you know where those funds went?

Mr. HIRSCH. I don't.

Mr. SIMON. Do you know where those funds went?

Mr. HIRSCH. I don't know if there are cash checks.

Mr. SIMON. You don't know if there are checks payable to cash charged to this project?

Mr. HIRSCH. No, sir.

Senator BUSH. Mr. Hirsch, prior to these ventures which we have been discussing, what was your business?

Mr. HIRSCH. Real estate and industry.

Senator BUSH. Were you a man of some means?

Mr. HIRSCH. Yes, sir.

Senator BUSH. Before you got into this you had been successful in business, had you?

Mr. HIRSCH. Yes, sir.

Senator BUSH. And is the committee to understand that your connection with this whole thing was simply that of an investor?

Mr. HIRSCH. Yes; yes.

Senator BUSH. Weren't you head of these companies?

Mr. HIRSCH. No, sir.

Senator BUSH. You were induced to go into this as an investment proposition under the leadership and promotion of others; is that correct, or not?

Mr. HIRSCH. Yes, sir.

Senator BUSH. I would like to say this, Mr. Hirsch, that since you have known for some time that you were going to come before this committee, I think you have come very badly prepared. It is the duty of all citizens to cooperate with the Government and I do not feel that this morning you have cooperated very well. You have failed to answer questions that you ought to have known about.

It would have been a very simple matter for a man of your business experience to acquaint himself with the facts pertaining to this very important matter. I wish to say to you that the committee is very much displeased with the way you have failed to cooperate with the committee this morning.

Mr. HIRSCH. Senator, may I speak?

Senator BUSH. You may speak, if you wish; yes.

Mr. HIRSCH. I will try to cooperate by giving counsel everything you have asked.

Senator BUSH. My point is, Mr. Hirsch, I don't want to belabor the point that you have known for some time that you were going to be asked certain questions about this whole project, and you have failed to cooperate by showing an ignorance of the thing. Whether or not you are ignorant, I don't say, but I do think that you should have come before this committee prepared to answer reasonable questions pertinent to this whole matter, which is a very important matter.

In your case alone there is \$24 million of the Government credit involved. So when the committee asks you to come and give testimony, I think you should have been prepared.

Mr. MAYER. Excuse me, Mr. Senator. I think we are violating our agreement here.

Senator BUSH. You will discontinue (referring to the cameramen).

Mr. SIMON. Did Nustrand Realty Co. use this surplus of mortgage money over the cost of that land to acquire other buildings and building other projects? I would like to ask you in that connection—

Mr. HIRSCH. I believe they did, Mr. Simon.

Mr. SIMON. How many pieces of real estate does Nustrand now own that it acquired with those funds?

Mr. HIRSCH. Nustrand does not own any real estate.

Mr. SIMON. What did it do with that money then?

Mr. HIRSCH. Nustrand owns the leaseholds.

Mr. SIMON. Yes, but the six or seven hundred thousand dollars that we are talking about Nustrand invested in other matters. What were those investments?

Mr. HIRSCH. Loans to other corporations.

Mr. SIMON. And were those corporations companies that your same group owned that built more properties?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. And you financed other real-estate properties with that money?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. What were those other real-estate properties?

Mr. HIRSCH. I think some of them are——

Mr. SIMON. What were the properties? What are the assets of Nustrand today?

Mr. HIRSCH. Repeat that question.

Mr. SIMON. What are the assets of Nustrand Realty Co. today?

Mr. HIRSCH. Oh, approximately \$800,000 or \$900,000.

Mr. SIMON. What are the assets?

Mr. HIRSCH. Receivables.

Mr. SIMON. From whom?

Mr. HIRSCH. From various real-estate corporations.

Mr. SIMON. What are the names of those real-estate corporations?

Mr. HIRSCH. I haven't got the balance sheet, but we can get it for you.

Mr. SIMON. Do you know who it is that owes this money to Nustrand, or who they loaned it to?

Mr. HIRSCH. Other corporations, and I would rather give them to you accurately.

Mr. SIMON. You don't know the names of the corporations?

Mr. HIRSCH. No, sir.

Mr. SIMON. Do you know the amounts of the loans?

Mr. HIRSCH. Offhand; no, sir.

Mr. SIMON. Are all of the assets of Nustrand loaned out to corporations that your group owns the stock in?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. And they are all corporations that are in real-estate ventures; is that right?

Mr. HIRSCH. Yes, sir.

Mr. SIMON. Are any of the Nustrand loans to individuals?

Mr. HIRSCH. None that I know of.

Mr. SIMON. You would know if it is so; wouldn't you?

Mr. HIRSCH. I don't think they are.

Mr. SIMON. But you don't know for sure?

Mr. HIRSCH. No.

Senator BUSH. Mr. Hirsch, we will dismiss you from the witness stand for the present, but we would like you to remain here in case we wish to recall you a little later.

Mr. MAYER. If the Chair please, I would like to say this with respect to the observation that the Chair made——

Senator BUSH. I don't think it is necessary.

Mr. MAYER. As recently as Friday, if the Senator please, we were in Mr. Simon's office in Washington, he then being out of town. For several weeks prior thereto, we had asked Mr. Cuthbertson of that office, as well as Mr. Hogue, of counsel staff, if there was anything specifically that they desired Mr. Hirsch to present prior to that time.

I can tell you of my own knowledge that as of Friday Mr. Cuthbertson said there was no such thing.

We received a notification one morning, the day before yesterday, that they wanted certain balance sheets. We managed to get those and submitted them last night, and I think the Senator should know that.

Mr. Hirsch has made every effort to cooperate with respect to specifications.

Senator BUSH. I have simply observed that when a witness comes before this committee, or any Government committee of this nature, and he knows about what he is to testify, that he should be prepared to testify in detail. He has made a great deal of money out of this proposition in which the credit of the United States has been substantially involved.

I only want to say that I am very much disappointed that he has not been able to be more helpful to us in this proceeding.

Mr. SIMON. I would like to add that they have given us all the balance sheets that we asked for, but among the many things that I think substantiates the Senator's comment is the fact that at the executive session in Washington on July 14, which is better than 6 weeks ago, we asked Mr. Hirsch a great number of questions about this project, and he said he knew nothing about them. We hoped between then and now he would have learned the answers.

I will cite one of them. We did ask you a lot of questions about the faulty construction of the building. You said you had never been through only the one building. I was hopeful that you would have looked at them and we could have asked you some questions about the faulty construction of the buildings.

Senator BUSH. Mr. Kenny would like to ask a question. Mr. Kenny.

Mr. KENNY. What is the present situation in respect to the property? Do you still own it?

Mr. HIRSCH. We still own the property?

Mr. KENNY. Yes.

Mr. HIRSCH. We still own the property, but we have asked the lawyers to draw up certain agreements whereby perhaps, if possible, the carrying groups will eventually take over.

Mr. KENNEY. Do you contemplate a sale?

Mr. HIRSCH. I don't know that it is a sale or what you would call it. That is up to counsel and the attorneys.

Mr. KENNEY. Are the mortgages current at the present time?

Mr. HIRSCH. To the best of my knowledge; yes.

Mr. KENNEY. There is no delinquency in the mortgages?

Mr. HIRSCH. I don't think so.

Mr. KENNEY. About how much of the mortgage has been retired up to now; do you know?

Mr. HIRSCH. The balance sheets will show that, Mr. Chairman.

Mr. MAYER. I will attempt to get those figures, Mr. Kenney, in the next few minutes here and pass them up to you. I do not have them right at hand.

Mr. KENNEY. Mortgages retire at the rate of about 2 percent a year and they have been in effect for about 4 years. That would be about 8 percent, I believe.

Mr. HIRSCH. It is 1½ percent amortization.

Mr. KENNEY. Are the properties operating successfully today? Are they paying all overhead and showing a profit?

Mr. HIRSCH. They are paying all expenses.

Mr. KENNEY. Are they showing a profit?

Mr. HIRSCH. Well, depreciation.

Mr. KENNEY. Do you know how much they failed to meet depreciation charges?

Mr. HIRSCH. I don't have that. Mr. Simon has those figures.

Mr. KENNEY. What is the present occupancy percentage?

Mr. HIRSCH. Well, the last time I looked at those figures several months ago they were close to 100 percent occupied.

Mr. KENNEY. Have been since they were completed?

Mr. HIRSCH. There was one period, I think, where they did have some vacancies.

Mr. KENNEY. Have you paid any dividends out of income?

Mr. HIRSH. No, sir.

Mr. KENNEY. That is all.

Senator BUSH. Thank you very much.

Mr. MAYER. If the Chair please, I have a room in the hotel here.

Mr. Hirsch will be in it. If you desire to call me——

Senator BUSH. Do we have the number of that room?

Mr. MAYER. 530. Mr. Hirsch has a condition that I discussed, and I would prefer——

Senator BUSH. Just so he is on call here.

Mr. MAYER. For how long, Senator, would you desire to have him on call?

Senator BUSH. The rest of the day.

Mr. MAYER. I don't think he should be asked to stay up there the rest of the day.

Senator BUSH. Can he stay in your room?

Mr. MAYER. May I inquire at the noon recess as to whether you wish to continue his presence?

Senator BUSH. That is better; that is fair enough.

Mr. MAYER. He will not be in this room from this minute on, so he will know nothing of the further testimony.

Mr. WEISMAN. May I introduce myself. Mr. Simon, I have spoken with you, and I have not had the pleasure of meeting you.

TESTIMONY OF ABRAHAM TRAUB, FARRAGUT GARDENS, BROOKLYN, N. Y., ETC., ACCOMPANIED BY MILTON C. WEISMAN, COUNSEL—Resumed

Mr. SIMON. Mr. Traub, where have you been the past 7 days?

Mr. TRAUB. Attending to my business.

Mr. SIMON. Where?

Mr. TRAUB. In my office, and elsewhere.

Mr. SIMON. Have you been in your office the last 7 days?

Mr. TRAUB. I have.

Mr. SIMON. Were you there yesterday?

Mr. TRAUB. No; I wasn't there yesterday.

Mr. SIMON. Where were you yesterday?

Mr. TRAUB. Taking care of a closing.

Mr. SIMON. Taking care of a what?

Mr. TRAUB. A closing that I had to take care of.

Mr. SIMON. The reason I asked is that our investigators have been trying for better than 7 days to get hold of you to find out some information which they have been unable to get.

Mr. TRAUB. Mr. Hogue spoke to me at my office the day before yesterday.

Mr. SIMON. Didn't you tell him that you were going to be in Mr. Weisman's office that morning?

Mr. TRAUB. I told him that if Mr. Weisman needed me I would be in his office.

Mr. SIMON. Didn't you tell him you were going to be there?

Mr. TRAUB. I don't recollect exactly how I put it. I may have said it.

Mr. SIMON. Our people waited there all day for you.

Do you have a ledger book which shows the transactions for each of your clients?

Mr. TRAUB. I don't know what you refer to as a "ledger book."

Mr. SIMON. You have a book that shows all your cash receipts?

Mr. TRAUB. Yes, sir.

Mr. SIMON. And you have a book which shows all your cash disbursements which have been made available to us. Then, in addition, don't you have a ledger book for each account or client, or whatever you want to call it, which shows the transactions for that particular person?

Mr. TRAUB. I don't think so. I don't know.

Mr. SIMON. You don't know whether you have such a book?

Mr. TRAUB. I don't think I have such a book. I never saw it.

Mr. SIMON. Do you have any other books other than merely a list of cash receipts and cash disbursements?

Mr. TRAUB. Oh, I have checkbooks.

Mr. SIMON. If you want to find out what the status of your account is with a particular client, do you have to go through the cash-receipts books from beginning to end to find out?

Mr. TRAUB. Yes; I think that is the way it is set up.

Mr. SIMON. You have no ledger sheet for a client which shows the status of his account with you?

Mr. TRAUB. Mr. Simon, I really don't know anything about the books. I don't know what books we have.

Mr. SIMON. Who keeps your books?

Mr. TRAUB. The bookkeeper.

Mr. SIMON. What is her name?

Mr. TRAUB. Lillian Krahan.

Mr. SIMON. Do you know why she hasn't been able to help us decipher your books?

Mr. TRAUB. I know she has been home sick for a couple of weeks.

Mr. SIMON. Is her illness in any way connected with this inquiry?

Mr. TRAUB. I know it isn't.

Mr. SIMON. You know it isn't?

Mr. TRAUB. Yes.

Mr. SIMON. I might say to you that her doctor told us last night that she was able to come and testify, although she insists that she is too ill to.

Mr. TRAUB. I have not spoken to her.

Mr. SIMON. Prior to Mrs. Krahan you had a bookkeeper named Rosalie Cohen; is that right?

Mr. TRAUB. I don't know the order they came. I had a bookkeeper by that name.

Mr. SIMON. Where does she live?

Mr. TRAUB. I don't know.

Mr. SIMON. Your office tells us that you have no record of her address; is that right?

Mr. TRAUB. We must have a record of the address.

Mr. SIMON. You keep social-security records; don't you?

Mr. TRAUB. I assume we do.

Mr. SIMON. They would show her address; wouldn't they?

Mr. TRAUB. I assume so.

Mr. SIMON. Could you give us the address of Rosalie Cohen?

Mr. TRAUB. At the present time; no.

Mr. SIMON. Do you know now where she lives?

Mr. TRAUB. No; I do not.

Mr. SIMON. Could you obtain that for us today?

Mr. TRAUB. I imagine—no; I don't know that I could obtain her present address. I could obtain the address that my books have. I am not familiar at all with the books of my office.

Mr. SIMON. Prior to Rosalie Cohen, you had a bookkeeper named Nettie Levy; is that right?

Mr. TRAUB. I think there was one before her.

Mr. SIMON. Did you have a bookkeeper named Nettie Levy?

Mr. TRAUB. I did.

Mr. SIMON. Do you know where she lives?

Mr. TRAUB. No; I do not know where she lives, but I know where she is.

Mr. SIMON. Where is she?

Mr. TRAUB. She is at 16 Court Street.

Mr. SIMON. She still works for you?

Mr. TRAUB. No.

Mr. SIMON. Who does she work for now?

Mr. TRAUB. I don't know who she works for, but I met her about 2 weeks ago in 16 Court Street. She told me she works there.

Mr. SIMON. This afternoon could you give us the address of Nettie Levy and Rosalie Cohen, their address at one time?

Mr. TRAUB. I will try to.

Mr. SIMON. We asked you for a statement of all the moneys paid to you by Farragut Gardens or any of these related corporations, and a statement of the moneys that you disbursed on their behalf. We have made merely the mathematical computation. It shows that Farragut Gardens, or these related corporations, paid you \$337,737, and that you disbursed on their behalf of \$8,571. Does that mean that the difference of \$329,000 was fees?

Mr. TRAUB. No, sir.

Mr. SIMON. What was the \$329,000?

Mr. TRAUB. With respect to \$125,000, that was a loan by the group to me.

Mr. SIMON. A loan by who to who?

Mr. TRAUB. By the group to me, or my firm.

Mr. SIMON. What do you mean by the "group"?

Mr. TRAUB. Hirsh, Kavy, and Benedict.

Mr. SIMON. They loaned you \$125,000?

Mr. TRAUB. They did.

Mr. SIMON. Is that the full loan?

Mr. TRAUB. No; there were several other loans, but in those figures there is a loan of \$125,000.

Mr. SIMON. Is there another loan from the Hirsh Radio Co. to you?

Mr. TRAUB. Yes.

Mr. SIMON. And another loan from Kavy, personally, to you?

Mr. TRAUB. Yes, sir.

Mr. SIMON. What you are talking about now, you say, is a loan from the group?

Mr. TRAUB. Yes, sir.

Mr. SIMON. What do you mean by the "group"? Who loaned the money?

Mr. TRAUB. Kavy signed the check, to the best of my recollection.

Mr. SIMON. Whose check was it?

Mr. TRAUB. The Nustrand Realty Corp. check.

Mr. SIMON. We notice you have made payments on the loan to Kavy personally, and the radio company. Have you ever made any payments on this loan?

Mr. TRAUB. I did not.

Mr. SIMON. Have you ever paid any interest on it?

Mr. TRAUB. I did not.

Mr. SIMON. Is there a written note in existence?

Mr. TRAUB. There is not.

Mr. SIMON. So you say that about 5 years ago this corporation loaned you \$125,000, and you have never paid any part of the principal, you have never paid any interest on it, and there is no written note evidencing it; is that right?

Mr. TRAUB. That is correct.

Mr. SIMON. What is the statute of limitations in New York on an oral loan?

Mr. TRAUB. Six years.

Mr. SIMON. So that if pretty quick something doesn't happen, they will have lost their right to recover it?

Mr. TRAUB. I don't think they are concerned about it.

Mr. SIMON. Is that because they don't expect it to be repaid?

Mr. TRAUB. I don't know whether they expect it to be repaid, but they know my situation as it existed in 1949.

Mr. SIMON. These applications were filed in 1949, weren't they, Mr. Traub?

Mr. TRAUB. They were.

Mr. SIMON. In 1949 you issued checks of your firm, to cash, for \$62,000. Can you tell us what happened to that cash?

Mr. TRAUB. I can.

Mr. SIMON. The first of those is a check for \$25,000, to cash, dated June 3—I shouldn't say the first, but one of them is a check, to cash,

for \$25,000, dated June 3, 1949. It is drawn on the Chase National Bank and endorsed by you. Will you tell us what happened to that \$25,000?

Mr. TRAUB. I paid it over to a party by the name of Schonfeld.

Mr. SIMON. Who is Mr. Schonfeld?

Mr. TRAUB. Mr. Schonfeld was a client of mine of long standing to whom I owed money.

Mr. SIMON. Why did you pay him in cash?

Mr. TRAUB. He had given that to me through the years 1944-46. My counsel says—

Mr. SIMON. I just want to know why you paid it in cash instead of a check?

Mr. TRAUB. I owed Mr. Schonfeld in February of 1949—

Mr. SIMON. My only question is why you paid it in cash.

Mr. TRAUB. That is the way he wanted it.

Mr. SIMON. He didn't want a check?

Mr. TRAUB. No, sir. He had previously loaned me cash and I gave it back to him in cash.

Mr. SIMON. On April 18, 1949, there was a check for \$15,000, drawn to cash, and endorsed to Abraham Traub, and then below that it says, "O. K. for cash, Abraham Traub." What was that \$15,000 for?

Mr. TRAUB. The same thing, Mr. Simon.

Mr. SIMON. That went to Mr. Schonfeld, too?

Mr. TRAUB. That is right.

Mr. SIMON. On April 5, 1949, there was a check for \$500, drawn to cash, and endorsed "Martin S. Robson." Who is he?

Mr. TRAUB. To the best of my recollection, Robson was the owner of a piece of property and placed a mortgage loan through my office. That check was given to him.

Mr. SIMON. Why was that in cash?

Mr. TRAUB. I don't know.

Mr. SIMON. It says, "O. K. for cash, Lawrence S. Cedar." Who is he?

Mr. TRAUB. He is a partner of mine, and he is the one who closed this transaction.

Mr. SIMON. Then on April 19, 1949, there is a check for \$2,000 to cash, and it is endorsed "Nettie Levy." Then "O. K. for cash, Abraham Traub." What was that \$2,000 for?

Mr. TRAUB. That was for Schonfeld, in all probability.

Mr. SIMON. Do you have a ledger sheet for Schonfeld so that you could keep track of what you paid him?

Mr. TRAUB. I have not.

Mr. SIMON. How do you know 5 years later that Mr. Schonfeld got these items of cash?

Mr. TRAUB. Because I know the amount that I owed him, and I know, to the greatest extent, all the cash went to Mr. Schonfeld.

Mr. SIMON. The total amount of checks drawn to cash in the period 1949 and 1954 is half a million dollars. Did you pay half a million dollars in cash to Mr. Schonfeld?

Mr. TRAUB. I did not.

Mr. SIMON. Then how can you say that all the cash went to Schonfeld?

Mr. TRAUB. I know the cash I did pay and I know the method I paid it.

Mr. SIMON. But you kept no record of it?

Mr. TRAUB. No, sir.

Mr. SIMON. Are you certain that none of this cash went to Clyde L. Powell?

Mr. TRAUB. Positive.

Mr. SIMON. He was in this from the very start, wasn't he?

Mr. TRAUB. In what?

Mr. SIMON. Isn't he the man who personally approved the Farragut applications?

Mr. TRAUB. Not to my knowledge. I have nothing to do with the approval of the applications, Mr. Simon.

Mr. SIMON. Weren't you representing them at that time?

Mr. TRAUB. But I was not the processing broker.

Mr. SIMON. Weren't you their lawyer at that time?

Mr. TRAUB. I was the lawyer for the corporation.

Mr. SIMON. Were you down to see Mr. Powell?

Mr. TRAUB. In connection with what? I saw him——

Mr. SIMON. Were you down to see Mr. Powell in connection with this application?

Mr. TRAUB. No, sir.

Mr. SIMON. How many times have you seen Mr. Powell in your lifetime?

Mr. TRAUB. As I told you once before, whatever amount I would tell you, somewhere around 25, 30, 35 times.

Mr. SIMON. How many times have you called Mr. Powell?

Mr. TRAUB. Oh, another guess, about 25 or 30 times.

Mr. SIMON. How many times did he call you?

Mr. TRAUB. Maybe a similar amount of times.

Mr. SIMON. I don't have a complete record, but from March 5, 1951, on—I am sorry, from March to August 1951, in just that 5-month period, Powell called you 15 times in a 5-month period.

Mr. TRAUB. I recollect that period very well.

Mr. SIMON. If he called you 15 times in a 5-month period, wouldn't the total calls come to more than that?

Mr. TRAUB. No; they may be, Mr. Simon, I don't know.

Mr. SIMON. Then I have another record here of a 6-month period in the fall of 1953 and the early part of 1954, when he called you 7 times.

Mr. TRAUB. Yes, that is about right.

Mr. SIMON. During that same period you called him 17 times; is that right?

Mr. TRAUB. I don't think it was 17 times, but I would say anything I say——

Mr. SIMON. I will be glad to give you the record.

Mr. TRAUB. I will take your statement, but I have no recollection how often I called him. I called him 25 or 30 times.

Mr. SIMON. What was the total dollar amount of FHA mortgages in the New York area that you handled?

Mr. TRAUB. I haven't any idea.

Mr. SIMON. Well over \$100 million?

Mr. TRAUB. Where I represented clients who closed?

Mr. SIMON. Yes, FHA mortgages.

Mr. TRAUB. It was considerable.

Mr. SIMON. Well over \$100 million, wasn't it?

Mr. TRAUB. It might well be; yes.

Mr. WEISSMAN. May I make a statement? Mr. Traub is a lawyer, and so that there may not be any misunderstanding—Mr. Traub had nothing to do with the processing of the FHA mortgages. He was the attorney on the real-estate aspects of this.

Mr. SIMON. Mr. Weisman, if you would like to be sworn and testify we will be very happy to hear you, but I would like to get from Mr. Traub what happened.

Mr. WEISSMAN. I didn't mean to be presumptuous, but you are a lawyer and I am, and Mr. Traub is. We know the implications of these things. I know you gentlemen want the facts.

Mr. SIMON. We want the facts, but we would like to get them under oath.

Were you with your clients in conference with Mr. Powell preceding the start of construction on this project?

Mr. TRAUB. No.

Mr. SIMON. Do you know whether your clients saw Mr. Powell prior to construction?

Mr. TRAUB. I do not know.

Mr. SIMON. Do you know whether Mr. Powell personally participated in the approval of the commitment?

Mr. TRAUB. I do not know that.

Mr. SIMON. You don't know anything about it?

Mr. TRAUB. No, sir.

Mr. SIMON. You are certain of that?

Mr. TRAUB. Positive.

Mr. SIMON. Prior to the time this commitment was issued, did you have conferences with Mr. Powell? I might say to you, while we can't prove from the diaries what the conferences were about, there are records of his conferences.

Mr. TRAUB. Will you repeat that question?

Mr. SIMON. Prior to the issuance of the commitments in this case, and while the applications were pending, did you attend or sit in on conferences with Mr. Powell?

Mr. TRAUB. Not to my best recollection.

Mr. SIMON. Are you prepared to say you didn't?

Mr. TRAUB. I say, not to my best recollection.

Mr. SIMON. I say, are you prepared to say you didn't?

Mr. WEISSMAN. I think that is an answer.

Senator BUSH. Let the witness answer.

Mr. TRAUB. The time would be what period? Will you fix the period of time?

Mr. SIMON. Well, the application for Farragut No. 1 was filed February 19, 1948. The project analysis for Farragut No. 1 is dated February 14, 1949. For Farragut No. 5, project analysis is dated the same day. Commitments probably issued a few months later.

Did you have any conferences with Mr. Powell in this matter prior to the fall of 1949?

Mr. TRAUB. Not to the best of my recollection.

Mr. SIMON. I show you a letter dated April 13, 1949, from Clyde Powell, to the director of the New York office, in which he says he

will approve some procedures which appear to be exceptional procedures for this Farragut project.

I ask you whether that refreshes your recollection?

Mr. TRAUB. This refreshes my recollection to a procedure that I took up with the New York office, that they advised me that they had no authority to go along with, they wanted me to initiate the step, which I did, through the New York office, and which they sent over to the Washington office.

Mr. SIMON. Powell overruled the New York office, too; didn't he?

Mr. TRAUB. It was not a question of overruling it. It was first an attempt to work the situation out. The New York office said they would like the Washington office to approve it.

Mr. SIMON. Whether you want to use the word "overrule" or not, isn't it the fact that Powell approved something the New York office was unwilling to approve?

Mr. TRAUB. Yes, sir.

Mr. SIMON. Going back to this list of checks. On October 20, 1949, there is a check for \$21,000. It bears the endorsement of Sol Harf, and then it says "O. K. for cash, Abraham Traub." Who is he?

Mr. TRAUB. An employee in my office.

Mr. SIMON. What was that \$21,000 for?

Mr. TRAUB. To the best of my recollection that was a further payment to Schonfeld.

Mr. SIMON. He is still alive?

Mr. TRAUB. No.

Mr. SIMON. He died?

Mr. TRAUB. Yes.

Mr. SIMON. When did he die?

Mr. TRAUB. In April 1954.

Mr. SIMON. Do you know whether he kept any records of the money he received?

Mr. TRAUB. He had one record, a joint record. He kept reducing it every time I gave him cash.

Mr. SIMON. Where is that record?

Mr. TRAUB. I don't know where that record is, but I know he did have a record.

Mr. SIMON. Why did Sol Harf have to cash this check?

Mr. TRAUB. Sol Harf, or the other endorser, was the person who presented himself to get the cash, which he brought back to me.

Mr. SIMON. Why couldn't you have just given the check to Schonfeld and let him cash it?

Mr. TRAUB. He wanted me to give the cash.

Mr. SIMON. Who is Leonard Rothberg?

Mr. TRAUB. A clerk that works in my office.

Mr. SIMON. He cashed a check, made out to cash, on August 10, 1949, for \$2,813.80. What was that for?

Mr. TRAUB. That may have been in connection with a closing.

Mr. SIMON. Why would it be to cash?

Mr. TRAUB. I don't know at the present time.

Mr. SIMON. There is a Mary G. Pace. Who is she?

Mr. TRAUB. A stenographer in my office.

Mr. SIMON. She cashed a couple of checks in July of 1949 to cash. What were they for?

- Mr. TRAUB. They were for office purposes.
- Mr. SIMON. What do you mean by "Office purposes"?
- Mr. TRAUB. Either on a closing—
- Mr. SIMON. Do you know what they were for?
- Mr. TRAUB. I do not. I cannot give you a specific answer.
- Mr. SIMON. You cannot tell me what those were for?
- Mr. TRAUB. No, sir.
- Mr. SIMON. Then there are a couple of checks here cashed by N. Levy. Is that Nettie Levy?
- Mr. TRAUB. That is Nettie Levy.
- Mr. SIMON. Do you know what those were for?
- Mr. TRAUB. It would appear that that \$3,000 check was cashed, which I turned over to Schonfeld. The \$1,176 must have been a check for office purposes.
- Mr. SIMON. Do you know what it was for?
- Mr. TRAUB. I do not.
- Mr. SIMON. Now, there is a check for \$2,500 on May 24 to cash, which you endorsed. What was that for?
- Mr. TRAUB. It must have been a payment to Schonfeld.
- Mr. SIMON. You have me intrigued there, because on May 24, 1949, the same day you cashed 2 checks to cash, 1 for \$3,000, and 1 for \$2,500. One of them apparently you took to the bank and endorsed, and the other one Nettie Levy took to the bank and endorsed, and you have just said they both went to Schonfeld. Why didn't you make out 1 check for \$5,500 instead of the 2 separate transactions?
- Mr. TRAUB. He would appear in my office sometimes 3 or 4 times a day, and on 1 occasion I would go over and cash it with him, if I went out to lunch with him, and another occasion in the afternoon, I wanted to reduce this indebtedness to Schonfeld as fast as I could, and as fast as I collected fees I reduced it.
- Mr. SIMON. Are you telling us he came in in the morning and you gave him \$3,000, and then he came back in the afternoon and you gave him another \$2,500?
- Mr. TRAUB. Yes, that is what I am telling you.
- Mr. SIMON. Now, there is a \$2,000 check on April 19, 1949, endorsed by Nettie Levy, to cash. Is that for Schonfeld, too?
- Mr. TRAUB. To the best of my knowledge; yes.
- Mr. SIMON. I want to make sure we understand you correctly. You say you kept no record whatever of your payments to Schonfeld.
- Mr. TRAUB. That is correct.
- Mr. SIMON. How much did you owe Schonfeld?
- Mr. TRAUB. In February 1949 I owed Schonfeld \$1,600,000, about.
- Mr. SIMON. And he gave you that \$1,600,000 in cash?
- Mr. TRAUB. I did not say that.
- Mr. SIMON. I thought you said he loaned—
- Mr. TRAUB. I said quite a bit he gave me in cash.
- Mr. SIMON. How much did he give you in cash?
- Mr. TRAUB. Oh, I would say easily over \$100,000.
- Mr. SIMON. And how much did you give to him in cash?
- Mr. TRAUB. About \$255,000, \$260,000.
- Mr. SIMON. If we continue on down here we get up to well over a half million dollars in these checks to cash. How do you decide

which of them went to Schonfeld and which of them went to somebody else?

Mr. TRAUB. Wherever the check is an odd amount, it was a business transaction of the office. Wherever it was a round amount, it went to Schonfeld.

Mr. SIMON. I think if you will go through the mathematical process you will find that those in round figures total well above the \$270,000 you have just mentioned.

Mr. TRAUB. Yes, I can imagine that.

Mr. SIMON. Who got the remainder?

Mr. TRAUB. That was for office expense.

Mr. SIMON. What do you mean by "office expense"?

Mr. TRAUB. Exchanges.

Mr. SIMON. What do you mean by "exchanges"?

Mr. TRAUB. A client would come in and they would give me a check. In one particular instance I know a client called me up and said, "My boy is in the neighborhood and he needs \$2,500 in cash. Will you cash the check and I will send you another check?" I cashed my check and gave him the \$2,500. He sent me in a check.

Mr. SIMON. In that case, why wouldn't you have made the check out to the boy and then seen that the bank cashed it for him?

Mr. TRAUB. We made it to cash and I endorsed it, and sent my clerk over to cash it.

Mr. SIMON. What was the name of that client, and what was the name of the boy?

Mr. TRAUB. The client I just mentioned was Kaskell.

Mr. SIMON. Kaskell?

Mr. TRAUB. Yes.

Mr. SIMON. As a matter of fact, you have got over \$1 million worth of checks issued by your firm, with the notation on your books "Charge to Kaskell"; is that right?

Mr. TRAUB. That is right.

Mr. SIMON. And that \$1 million charged to Kaskell which includes checks payable to cash, doesn't include any of the half million dollars worth of checks we are now talking about?

Mr. TRAUB. It does.

Mr. SIMON. I will be glad to give you both lists, and I think you will find your million dollars worth of checks to Kaskell is in addition to these.

Mr. TRAUB. The cashed checks on that list include the four or five hundred thousand dollars that you are referring to.

Mr. SIMON. Let's go. You have got a check here for \$35,000, to cash, on February 8, 1949, and it is signed, "Rosalie Cohen." What was that one for?

Mr. TRAUB. What date is that?

Mr. SIMON. February 8, 1949. I think you will find it on the next page, on the ninth line on page 74.

Mr. TRAUB. That was a payment probably I paid to Schonfeld.

Mr. SIMON. Why do you say "probably"?

Mr. TRAUB. I know the large payment of over \$2,500 and \$5,000 I paid to Schonfeld. I kept paying him as often as I could.

Mr. SIMON. Are you certain, Mr. Traub, that some of that money didn't go to Clyde Powell?

Mr. TRAUB. Positive.

Mr. SIMON. Are you certain that for not only this big project, but other large projects that you represented the people in, you didn't take cash to Clyde Powell?

Mr. TRAUB. Positive. You know, Mr. Simon, I would like to make a statement for the record, if I may. It will take me a minute.

Mr. SIMON. We will be glad to let you—

Mr. TRAUB. Just 1 minute. I would like to make a statement right now.

Senator BUSH. All right.

Mr. TRAUB. I have been practicing law for over 27 years, and have represented some of the largest realtors in the country and have been engaged and associated in the largest deals in the country, not only in New York State, but in Florida, Connecticut, and Jersey, and I haven't represented in this FHA any client that I did not represent long before section 608 was ever heard of or created.

I have been considered—I am saying this modestly—one of the real-estate experts of the country. I have been recommended matters, not FHA matters, but other real-estate type of transactions. I have never paid a bribe or conspired, not only FHA-wise or any other way with any official or anybody.

These implications and insinuations have been getting me down for the last 5 or 6 weeks, Mr. Simon.

Mr. SIMON. Let me say to you—

Mr. TRAUB. If I may finish. When I go into a matter I make a study of the situation. I was looked upon by all the people in the FHA as understanding FHA as much as the people who wrote the rules and regulations.

This letter that you just showed me was a thought that occurred to me where people would not be able to go ahead with construction unless they were able to put up a bond to cover the so-called show money. I started to develop this thing with the Director, and the Assistant Director. It wasn't a case of overruling them. It was a case that they had never heard of such a procedure.

I said to them, "I will get a surety company to send a representative over to Washington. They will then work out with him the form of bonds. Make it as hard or as difficult as you want."

Chester Bates, the vice president of the Continental Casualty Co., himself—and I did not go with him—went to the FHA and met with 4 or 5 people of the executive committee. They worked out the form of bonds.

The word came back that if that form of bond was written, it would be acceptable instead of the show money.

Now, I didn't have, nor do I intend to, nor will I ever resort to bribery, collusion, or graft with anybody. If I make a statement, it was unfortunate that I got myself in a very precarious situation by 1949, and I don't think this committee is interested in that. I ended up with creditors of over \$2 million. I still am in debt and I have paid off everybody, and I have not compromised any claim. I still owe Schonfeld, even though he is dead. I didn't like the inference about him being dead. Even if he is dead, to you I still owe Schonfeld \$20,000 to this day.

I employed smart people in my organization. I am the business getter. I work these things out. I haven't got the time to sit down and look at the books and records.

I have been advised by my counsel yesterday that my books are the type of books that a \$10,000-a-year attorney would handle, but I never interested myself in the books.

Mr. SIMON. Let me say to you, Mr. Traub, that of all the cases in the United States that this committee has inquired into, nobody has caused or given us the trouble in getting the books that you have.

We have been 6 weeks trying to get the books that we subpoenaed 6 weeks ago, and we still don't have them. We had a total of 6 or 8 people working up here for 2 weeks, most of the time in Mr. Weisman's office, and they have not been able to get in touch with you or any of your bookkeepers for 2 weeks that they have been trying to find out the answers to some questions. As you know, yesterday morning, Mr. Weisman said if they would give him the questions in writing, he would give them the answers in writing last night. And he did, and we will get to the answers in a minute, which are inadequate.

Let me say this, in addition, that Clyde Powell's books show that you came to see him as frequently or more frequently than anybody else; that he had innumerable long-distance calls where he called you, as well as the calls that you made to him.

Clyde Powell refuses to testify when asked about people paying him money, on the ground that his testimony might tend to incriminate him.

You have these large items of cash on your books, most of which we will get to in a minute; many of them at least were charged on your books to clients' expense, not to loans. You tell us that you don't have any record that shows the detailed breakdown of who that was.

The General Accounting Office people who have been working for us in auditing your books tell me they have never seen such books with respect to inadequacies, as yours. The man who is allegedly the recipient of all these cash payments, in addition to the fact that Mr. Powell won't testify—the man who is the recipient of them is the man who is not alive.

You are a good enough lawyer to draw inferences from that.

Mr. WEISSMAN. May I say, Senator, may I just make one statement? When I got into this matter approximately a week ago I communicated with—

Senator BUSH. Now, my friend, you are not on the witness stand and we are not interested in your testimony unless you want to be sworn and become a witness here.

Mr. TRAUB. I would like to ask Mr. Simon a question.

Senator BUSH. Now, wait a minute.

Mr. TRAUB. May I ask you one question? When was the first time you asked for my books? You say 6 weeks ago?

Mr. SIMON. Prior to July 14, 1954.

Mr. TRAUB. My books?

Mr. SIMON. Yes; you were served with a subpoena for your books prior to July 14, 1954, and on July 14, 1954, you appeared before this committee in executive session, and you told us that you didn't

have the books that we had subpoenaed, and, as a matter of fact, you were indignant, if you will, that we subpoenaed them.

Mr. TRAUB. That is right.

Mr. SIMON. You said if we just give you time you would get them all to us.

Mr. TRAUB. Not the books. You mean——

Mr. SIMON. The subpoena had been for the books.

Mr. TRAUB. If you will read the question in the testimony, you asked me to get up for you a statement of the moneys I received from these corporations.

Mr. SIMON. The subpoena had been for the books; is that right?

Mr. TRAUB. I don't want to argue with you.

Mr. SIMON. The subpoena was served prior to July 14, 1954, and to this day we have never received either what the subpoena called for, or what we asked for at the executive session.

Let me ask you this: On September 6, 1950, there was a check for \$8,000 issued to cash. It is your check No. 2519.

Mr. MAYER. Will you give me the number of the sheet?

Mr. SIMON. Sheet 24.

I might say that your books carry a column "Expense, clients." I take it that any money you paid on a loan wouldn't be put under "Expense, clients"; would it?

Mr. TRAUB. I don't know.

Mr. SIMON. That \$8,000 item—and I have just picked that at random—is shown on your books under the column headed "Expense, clients." Can you tell us what that was for, and who the client was it was charged to?

Mr. TRAUB. That was a payment made, in all probability, to Schonfeld.

Mr. SIMON. Why would a payment to Schonfeld be under "Expense of clients"?

Mr. TRAUB. I don't know why it appears under "Expense of clients." Is that the only item?

Mr. SIMON. Oh, no, no. I am not trying to pick an isolated item. If you want more of them, on December 7, 1950, you will find a check for \$5,000 to cash under "Expense, clients." On December 2, 1950, one of \$2,500 for "Expense, clients."

On December 22, 1950, one for \$3,000 to "Expense, clients."

Were those all payments to Schonfeld?

Mr. TRAUB. They were, in all probability, excepting the two checks that you have there were not.

Mr. SIMON. I am talking at the moment about the \$8,000, the \$5,000, the \$2,500, and the \$3,000.

Mr. TRAUB. Yes; they were, in all probability, to Schonfeld.

Mr. SIMON. Why do you say "in all probability"?

Mr. TRAUB. I mean that is the only person I paid cash to in these sums.

Mr. SIMON. Why do you charge them to "expense clients"?

Mr. TRAUB. I didn't make these entries, Mr. Simon. I didn't even know that they were made that way.

Mr. SIMON. Are you saying that your bookkeeper did this improperly?

Mr. TRAUB. If the entries are under "expense clients" it was improper.

Mr. SIMON. Mr. Traub, as I understand bookkeeping—and I don't purport to be a bookkeeper—you have a journal which shows the cash receipts and the cash disbursements, but then you have a ledger on which you post those entires showing the condition of each account that you carry.

Don't you have such a book?

Mr. TRAUB. I have since 1949 installed—or 1951 rather—installed a new system in the office.

Mr. SIMON. Answer my question. Do you have a ledger book that shows these accounts?

Mr. TRAUB. I don't know.

Mr. SIMON. You don't know?

Mr. TRAUB. No; I don't.

Mr. SIMON. Who would know?

Mr. TRAUB. My bookkeeper, probably.

Mr. SIMON. And she is home sick?

Mr. TRAUB. That is right.

Mr. SIMON. As a matter of fact, all the bookkeepers in this Farragut matter are sick; aren't they?

Mr. TRAUB. I did not say that; did I?

Mr. SIMON. Isn't the auditor for the company a man named Neitlich?

Mr. TRAUB. He is not my auditor.

Mr. SIMON. The auditor for Farragut?

Mr. TRAUB. Yes.

Mr. SIMON. He is sick?

Mr. TRAUB. Yes.

Mr. SIMON. And he has a partner named Fialkoff, and he is sick, too?

Mr. TRAUB. He wouldn't know anything about my books.

Mr. SIMON. He would know about the money the Farraguts paid you?

Mr. TRAUB. Yes.

Mr. SIMON. They are both sick?

Mr. TRAUB. Yes.

Mr. SIMON. Your bookkeeper is sick, too; is that right?

Mr. TRAUB. That is right.

Mr. SIMON. Is there any way, Mr. Traub, that we can verify by the books what these payments to cash were for that were charged on your books to "expense clients"?

Mr. TRAUB. I am pretty certain that these were payments made to Schonfeld, Mr. Simon.

Mr. SIMON. You say you are pretty certain?

Mr. TRAUB. Yes.

Mr. SIMON. Is there any way that we can verify it?

Mr. TRAUB. I don't know.

Mr. SIMON. Yesterday we had the testimony of George Grace, that in January of 1950 he received a check for sixty-one thousand-some-odd dollars from the Bank of Manhattan on the Netherlands project—is that the right name?

Mr. TRAUB. Netherland Gardens.

Mr. SIMON. Fieldstone is another name for it?

Mr. TRAUB. Yes.

Mr. SIMON. He said he was only entitled to \$17,500 of that money, so he deposited the \$61,000 check in his personal bank account and drew a check to you for forty-four thousand-some-odd dollars. Do you recall that check?

Mr. TRAUB. I think I do.

Mr. SIMON. You deposited that check in your account and then you drew a check for \$40,000 to the Manufacturers Trust Co. Do you recall that?

Mr. TRAUB. To the Manufacturers Trust?

Mr. SIMON. Yes; a \$40,000 check to the Manufacturers Trust Co. You apparently kept \$4,400 and drew a check for \$40,000—

Mr. TRAUB. I don't recall drawing it to the Manufacturers Trust Co.

Mr. SIMON. You don't?

Mr. TRAUB. No.

Mr. SIMON. In January of 1950 a check for \$40,000 to the Manufacturers Trust Co. Can you refresh your recollection on that? If it will help you any, it is your check No. 3238.

Mr. TRAUB. Drawn to the Manufacturers Trust?

Mr. SIMON. Yes, sir.

Mr. WEISSMAN. Drawn on the Manufacturers Trust Co.

Mr. SIMON. Drawn to the Manufacturers Trust Co. It is the first check on sheet 26.

Mr. TRAUB. This notation refreshes my recollection. The sponsor in this project was Kaskell.

Mr. SIMON. Yes.

Mr. TRAUB. A fellow by the name of Exelberg. They were 50-50 partners in this deal. This money was Kaskell's money. I either make a check out to Kaskell or paid an obligation of Kaskell's of \$40,000, the balance of that sum was to be applied on account of my fee for services rendered.

Mr. SIMON. I am interested in the \$40,000.

Mr. TRAUB. That \$40,000 was either paid to Kaskell or applied on account of Kaskell's indebtedness to somebody else, or to me. I did a lot of exchanging with Kaskell.

Mr. SIMON. Do you know what happened to that \$40,000?

Mr. TRAUB. Kaskell would know.

Mr. SIMON. Do you know?

Mr. TRAUB. No; I do not.

Mr. SIMON. Why would you draw a check for \$40,000 to the Manufacturers Trust Co. if the money was owing to Kaskell?

Mr. TRAUB. He may have wanted me to deposit or pay a note of his at the Manufacturers Trust.

Mr. SIMON. Do you know?

Mr. TRAUB. I do not. I am just surmising, but it was Kaskell's money.

Mr. SIMON. If I assured you it was not to pay a note of Kaskell's at the bank, or it was not to be deposited at Kaskell's account in the bank, would that refresh your recollection any?

Mr. TRAUB. No.

Mr. SIMON. Do you know what that \$40,000 could be for?

Mr. TRAUB. No.

Mr. SIMON. Did Kaskell ever see the check for \$40,000?

Mr. TRAUB. I don't know.

Mr. SIMON. You don't know?

Mr. TRAUB. He must have.

Mr. SIMON. Do you know whether you took the check for \$40,000 to the bank and got a cashier's check from them for that amount?

Mr. TRAUB. If that happened, then it was for a purpose of Kaskell's. That is possible.

Mr. SIMON. Why wouldn't you draw your check to Kaskell instead of drawing your check to the Manufacturers Trust Co. and then going and getting a certified check from the bank?

Mr. TRAUB. Because he may have needed certified moneys and the check that I received from George Grace may not have been a certified check, and the Manufacturers Trust Co., under the banking rules, would issue a cashier's check to me but would not certify a check, and it was for Kaskell's purpose.

Mr. SIMON. Mr. Traub, are you a partner of Kaskell's?

Mr. TRAUB. No.

Mr. SIMON. We find in your cash disbursements a total of \$1,078,000 that you paid out either to Kaskell or for Kaskell's account, but we don't find any receipts from him anywhere near approaching that \$1,078,000.

Mr. TRAUB. He paid it all back. It was just a temporary loan. I don't think it lasted more than a day or two.

Mr. SIMON. Do you have a ledger sheet that shows the money you paid out for Kaskell and what he paid in so that one could balance them?

Mr. TRAUB. Mr. Simon, I do not know what books I have. I tried to tell you what system I have. You wouldn't listen to me.

Mr. SIMON. How do you know Kaskell paid you back the \$1,078,000?

Senator BUSH. That is a lot of money.

Mr. TRAUB. It is. It is over a period of 4 or 5 years.

Mr. SIMON. That is correct, but it is still a lot of money.

Mr. TRAUB. He never held it out more than 2 or 3 days, so it isn't a case that I had to remember whether he paid it all.

Mr. SIMON. Is there any book that shows that, Mr. Traub?

Mr. TRAUB. I don't think I have a book that shows that. I know Kaskell does not owe me anything anywhere near that money.

Mr. SIMON. First you said he doesn't owe you anything, and then you said he doesn't owe you anywhere near that amount.

Mr. TRAUB. He owes me certain sums for fees, but for exchanges he does not owe me any money.

Mr. SIMON. As a matter of fact, you have very particularly marked in the cash disbursements book "exc." Does that mean exchange?

Mr. TRAUB. I didn't mark it.

Mr. SIMON. Your bookkeeper did then?

Mr. TRAUB. Yes.

Mr. SIMON. "Exc."—does that mean exchange?

Mr. TRAUB. I assume it means exchange.

Mr. SIMON. I would say roughly a third of these items, maybe as much as a half of them, have "exc" after them.

Mr. TRAUB. May I see the list of items? I may be able to explain most of them. The list of the million and something.

Mr. SIMON. Yes, I will be glad to give you that list.

Mr. TRAUB. Take the first item, Mr. Simon. I think I can cut this down by a couple hundred thousand. The first item is in connection with the purchase of land that Kaskell purchased from another client of mine, Punia, Marx & Lipstein, in which I received a certain sum of money, and paid out for Kaskel \$105,732.

Mr. SIMON. Do your books show the receipt of that money? We have verified the payment as you have just stated it, but we can't find the corresponding receipt.

Mr. WEISMAN. You are mistaken. I pointed out to your auditor that he had received it the day before, and I gave you, in the answers, the breakdown.

Mr. SIMON. I beg your pardon. You are right. That \$157,000—let's go to the round number, the \$25,000, the \$20,000, and then we have got some down here—it says "Advance for Kaskell." Do you find those?

Mr. TRAUB. You say the \$25,000 and \$20,000. That \$25,000 and \$20,000, I am reasonably certain you will find I got that back a day or two later.

Mr. SIMON. From whom did you get it back?

Mr. TRAUB. From Kaskell.

Mr. SIMON. Check 3713. There is a \$10,000, a \$10,000, a \$20,000, a \$25,000, and a \$25,000.

Mr. TRAUB. Right.

Mr. SIMON. All within a few days there?

Mr. TRAUB. No; you will find that 3-28-51 is \$10,000, \$10,000, and \$20,000. That really is one advance of \$40,000. I had three bank accounts and I could only draw \$10,000, \$10,000, and \$20,000, so I drew it out of 3 banks and loaned him the \$40,000, and he paid it back to me.

Mr. SIMON. Do you have any record that shows he paid it back?

Mr. TRAUB. The only record I have would be the books or Kaskell's check that he paid it back, but I know he does not owe me any money.

Mr. SIMON. This \$157,000 the books show is paid back, but we can't find anything like \$1,078,000 of receipts from Kaskell. You don't disagree with that, Mr. Weisman?

Mr. WEISMAN. I don't know.

Mr. SIMON. We find nothing like—

Mr. WEISMAN. This comes as a surprise to me.

Mr. SIMON. Mr. Traub, are you connected with Carol Management Co.?

Mr. TRAUB. I am not.

Mr. SIMON. Do you know anything about them?

Mr. TRAUB. I am the attorney.

Mr. SIMON. Who are the partners in Carol Management Co.?

Mr. TRAUB. There are no partners. There is one individual.

Mr. SIMON. Is it a corporation?

Mr. TRAUB. It is.

Mr. SIMON. It is a corporation?

Mr. TRAUB. Yes, sir.

Mr. SIMON. Carol Management Co. corporation?

Mr. TRAUB. Carol Management Corp.

Mr. SIMON. Who owns that company?

Mr. TRAUB. Alfred Kaskell.

Mr. SIMON. What is its business?

Mr. TRAUB. Managing real estate and owning some real estate.

Mr. SIMON. There are a lot of checks in here from you to Carol Management Corp. What are those for?

Mr. TRAUB. Exchanges.

Mr. SIMON. What do you mean by "exchanges"?

Mr. TRAUB. Loans to Kaskell for a day or two. Kaskell would want a loan for a day or two to meet an obligation. I would loan it to him for a day or two. He paid it back to me. Two days later he would come back for another loan. I did it again.

Mr. SIMON. Were you running a small-loan business with him?

Mr. WEISMAN. Large-loan business.

Mr. TRAUB. I accommodated him.

Mr. SIMON. What was the reason that he needed loans for a day or two from you?

Mr. TRAUB. That you will have to ask Mr. Kaskell.

Mr. SIMON. He didn't ever tell you why?

Mr. TRAUB. Sometimes I knew. He needed to take title to some property or he needed to make certain payments and he was getting a payment a day or two later.

Mr. SIMON. He is your client; isn't he?

Mr. TRAUB. He is and has been for 25 years.

Mr. SIMON. Does he keep a record of the moneys you pay him and the moneys he pays you back?

Mr. TRAUB. Yes.

Mr. SIMON. So that we could find in his records a ledger that would show the amount that he owed you from time to time?

Mr. TRAUB. I am pretty certain you can.

Mr. SIMON. Do you know whether he keeps that record?

Mr. TRAUB. I say I am pretty certain he does.

Mr. SIMON. Do you know?

Mr. TRAUB. No; I never saw it.

Mr. SIMON. When Farragut No. 4 was finished and the mortgagees made some complaints about the construction, did you attend any conferences in Washington with Mr. Powell about the construction of the building?

Mr. TRAUB. I did not.

Mr. SIMON. There were those conferences; weren't there?

Mr. TRAUB. To my knowledge those conferences took place in New York, not in Washington.

Mr. SIMON. Mr. Powell came up to New York; is that right?

Mr. TRAUB. I think that is it; yes.

Mr. SIMON. Were you in the conferences in New York?

Mr. TRAUB. I was not.

Mr. SIMON. Did you ever sit in on any of these conferences in Mr. Powell's presence when the construction was discussed?

Mr. TRAUB. No, sir.

Mr. SIMON. You know nothing about that?

Mr. TRAUB. I do not.

Mr. SIMON. Did you ever go out to the site with Mr. Powell or Mr. Lee of the Drydock Bank?

Mr. TRAUB. I never went out to the site with Mr. Powell, but I did go with Mr. Lee several times.

Mr. SIMON. Do you know whether any of the people in this group went out to the site with Mr. Powell?

Mr. TRAUB. It was reported to me that Mr. Kavy went out with Mr. Powell.

Mr. SIMON. I think we should say for the record, explaining why we haven't called Mr. Kavy, who is the principal, that he, too, is sick; he was in an accident, and he is in bed.

Mr. TRAUB. That is right.

Mr. SIMON. Did you know, Mr. Traub, that the Drydock Bank had estimated the cost of construction here at approximately \$17 million for these 5 buildings?

Mr. TRAUB. I did not. This is the first time I heard of it—today.

Mr. SIMON. There were some conferences in July of 1951, certainly at least one of them in Washington, with Clyde Powell. Were you present there?

Mr. TRAUB. I was present at some conferences—you mean with reference to the waterworks, with reference to Farragut?

Mr. SIMON. With reference to Farragut, in July of 1951.

Mr. TRAUB. No. To my best recollection I was not there.

Mr. SIMON. You are not certain you weren't there?

Mr. TRAUB. I am pretty certain, but I mean I am just relying on my recollection.

Mr. SIMON. Mr. Traub, you said a moment ago that you were an expert on these section 608 matters; is that right?

Mr. TRAUB. I did not say that.

Mr. SIMON. Well, I thought—

Mr. TRAUB. I don't know anything about construction, Mr. Simon. I am talking about the legal phases.

Mr. SIMON. That is what I am talking about, the legal phases. In 1947 the Congress passed an amendment to the National Housing Act, amending title 6, and as you know, these section 608's were built under title 6; is that right?

Mr. TRAUB. That is right.

Mr. SIMON. Under this Congress said:

In estimating these current costs for the purpose of said title, the Federal Housing Commissioner shall therefor use every feasible means to assure that such estimates will approximate as closely as possible the actual costs of efficient building operations.

Now, in this case the actual costs—and we will assume for this purpose that your clients were efficient builders—were some \$6 million less than the estimated costs. The statute required the Federal Housing Commissioner to use every feasible means to assure that the estimates of costs will approximate as closely as possible the actual costs of efficient builders.

Can you give this committee any explanation of how this statute could be complied with and the costs be so far off?

Mr. TRAUB. Well, I can only go on hearsay—it would definitely be hearsay—I have two clients who built almost identical projects, the same units, the same architect. One client was left with about \$60,000. The other client put in about \$45,000 to finish the job. There was a difference right there of \$105,000 on a 60-family-house job.

Mr. SIMON. I would assume that they would explain that by saying the one fellow was efficient and the other fellow wasn't?

Mr. TRAUB. That is right.

Mr. SIMON. But here the law said that his estimates should be based on the cost of efficient builders. I am granting that the Kavy group were efficient. The statute required they base the cost on efficient builders, and they are still 33 percent off if you take the actual cost as a base, or 25 percent off if you take the estimated cost as a base.

Mr. TRAUB. Mr. Simon, Kavy acted as his own architect. I know that he charged this group only out-of-pocket disbursements. There isn't an architect in the country that would do that with a job as large as this.

Mr. SIMON. With all your experience, isn't it a fact that in all these big projects of 2,000 and 3,000 units, the builder hires his own architect and puts him on the payroll? Isn't that the custom?

Mr. TRAUB. No.

Mr. SIMON. It certainly is true with a lot of them, isn't it?

Mr. TRAUB. Yes. It is not the custom.

Mr. SIMON. I don't know what you call the custom, but in a great number of these 2,000 and 3,000 unit apartments, the builder hires the architect and pays him a salary; is that right?

Mr. TRAUB. Some of them; yes.

Mr. SIMON. And the salaries that Kavy paid the draftsman who drafted the plans and specifications were all charged as costs of this operation; is that correct?

Mr. TRAUB. Yes.

Mr. SIMON. Did you know about the 1947 amendment to the Housing Act when you applied for these applications?

Mr. TRAUB. I never applied. I would like to get another statement on the record, Mr. Simon.

I never acted as a broker in any of these transactions. When I say "as a broker" I mean a processing lawyer.

Mr. SIMON. You are a lawyer?

Mr. TRAUB. There is a difference between a lawyer and a processing broker. I never filed any applications nor did I prepare any applications, nor did I ever know what the information was in the applications.

Mr. SIMON. Mr. Traub, I have before me the application on section 1, that is a photostat copy of it, and there is a place in the questionnaire where it asks for the name and address of the architect and the name and address of the attorney.

Under the name and address of the attorney it says, "Dreyer & Traub, 16 Court Street, Brooklyn, N. Y."

Was that put in there with your authority?

Mr. TRAUB. At that time I didn't know that they were putting it in.

Mr. SIMON. You didn't know they put your name in there?

Mr. TRAUB. But the probabilities are that the people who prepared the application knew that I had represented the Hirshes and the Kavys for 20 years before FHA, and they just put my name in as the attorney.

Mr. SIMON. In this statement we started out with, which you gave us, which showed that this group had paid you \$329,000 over and above what you had disbursed for them, you told us that \$125,000 of

that was this unrecorded loan. Then that would leave \$204,000 as fees; is that right?

Mr. TRAUB. No, Mr. Simon. In connection with that statement you asked me, if I remember correctly, to prepare a statement of the moneys that I received from the 16 corporations.

Mr. SIMON. And the moneys you disbursed for them.

Mr. TRAUB. And the moneys I disbursed for the 16. I told you that to the best of my recollection there were only 11 or 12 corporations, because the Vanderveer Estates, Inc., had never been organized. I then requested my bookkeeper to prepare such a statement.

Mr. SIMON. Let's get this straight. Your statement that you gave us shows that you received from them \$337,773; is that right?

Mr. TRAUB. That is right.

Mr. SIMON. And it shows that you disbursed on their account \$8,571.

Mr. TRAUB. Correct.

Mr. SIMON. Now, the net is \$329,000.

Mr. TRAUB. I am not disputing that.

Mr. SIMON. I am trying to find out what the \$204,000 was for, if it was not fees.

Mr. TRAUB. Most of that \$204,000 was fees in Farragut. Some of that money was fees for other enterprises. I did receive additional moneys from the various sponsors or their corporations. They treated these corporations—they would give me a check from one corporation and apply it for Farragut.

Mr. SIMON. They treated them as a package?

Mr. TRAUB. I have since found out I have not included all the checks.

Mr. SIMON. It is more than this shows?

Mr. TRAUB. Maybe about \$2,000 more.

Mr. SIMON. You heard Mr. Hirsh quarrel with me this morning when I tried to get \$100,000 that they made in one pocket, and he insisted on separating it, but they did treat them all as one.

Mr. TRAUB. Yes, in my opinion they did.

Mr. SIMON. Instead of \$204,000 the fee should be about \$225,000?

Mr. TRAUB. But not only in this. It would also take in a lot of conventional work that I did for them.

Mr. SIMON. What were the fees that they paid you in connection with the 5 Farraguts and the Nustrand matter relating to the land under the 5 Farraguts?

Mr. TRAUB. In my opinion about \$200,000.

Mr. SIMON. You weren't the processing broker?

Mr. TRAUB. I was not.

Mr. SIMON. And you weren't the attorney in filing the applications?

Mr. TRAUB. I was not.

Mr. SIMON. What did you do for that \$200,000?

Mr. TRAUB. All right, I will tell you what I did. There was a very, very complicated street proceeding that had to be brought about in order to enable the construction of these five projects. In bringing the street proceeding my office—incidentally, when I say "I," I told you before I have an organization of 40 people in my employ, and I don't know all the work, but the whole office was working on this thing.

Mr. SIMON. How much of the \$200,000 was for the street proceeding?

Mr. TRAUB. I never set any sum of money for the street proceeding or preparing the papers or for the condemnation proceeding, or so much money for the store transaction.

I also represented them on the mortgaging. I represented them on setting up all of these corporations. This is 5 years of work, Mr. Simon.

Mr. SIMON. And the \$125,000 that this statement shows that you got from Nustrand, you say that was a loan?

Mr. TRAUB. It was.

Mr. SIMON. On which you have paid no interest and you have paid no principal payments, and there is nothing in writing about it?

Mr. TRAUB. I didn't say there is nothing in writing. They have it on their books as a loan. They carry it on their books as a loan.

Mr. SIMON. You signed no note?

Mr. TRAUB. I signed no note.

Mr. SIMON. You don't carry it on your books as a loan?

Mr. TRAUB. No; I know I owe them.

Mr. SIMON. You don't carry it on your books as a loan?

Mr. TRAUB. I don't know what my books show.

Mr. SIMON. You have a cash receipts book. Does it show in your cash receipts book as a receipt?

Mr. TRAUB. As to that, I received from the office of the corporation. They gave me that in January 1949.

Mr. SIMON. Does it show on your books?

Mr. TRAUB. I don't know whether it shows on the books or not, but I know I owe them the money.

Mr. SIMON. Incidentally, in 1953 they paid you \$833 a month. That does not appear in the affidavit. Is there any reason for that?

Mr. TRAUB. Mr. Simon, they paid that from a corporation known as the KBH Corp., which was a management company that managed all their properties.

Mr. SIMON. Your book shows "KB retainer, Farragut No. 3," "KB retainer, Farragut No. 4."

Mr. TRAUB. I don't know what the books show, but I am telling you that those checks came from a corporation known as KBH Corp.

Mr. SIMON. Let's get back to what we were talking about. Were you aware of the 1947 amendment to the act by Congress?

Mr. TRAUB. I was.

Mr. SIMON. Did you tell your clients about it?

Mr. TRAUB. Some of them I did.

Mr. SIMON. I am talking about Kavy and this group now.

Mr. TRAUB. I don't know whether I did or the processing broker did.

Mr. SIMON. Who was the processing broker?

Mr. TRAUB. Punia & Marx.

Mr. SIMON. Do you know whether they knew that Congress had said that the estimated cost must be as close as possible to the cost of efficient builders?

Mr. TRAUB. I don't know.

Mr. SIMON. The fact is that they built these projects one at a time virtually; isn't that true? I don't mean that literally, but No. 5, for example, wasn't started until after No. 1 had been completed.

Mr. TRAUB. No; that isn't so.

Mr. SIMON. Were they all built at once?

Mr. TRAUB. No. They built No. 1, and then about 2 or 3 months after that, when they were up about 1 or 2 stories, they started No. 2. Then about 2 or 3 months after that they started No. 3.

In my opinion, before No. 1 was finalized No. 5 was well under way. That is my recollection.

Mr. SIMON. Before they finalized No. 5 did they know that their costs on No. 1 were going to be substantially less than the estimates?

Mr. TRAUB. I never knew.

Mr. SIMON. Certainly No. 1 was completed long before they finalized No. 5; isn't that so?

Mr. TRAUB. Correct.

Mr. SIMON. And they had to have known that their costs were much less?

Mr. TRAUB. They may have known, but I didn't know. You asked me did I know.

Mr. SIMON. Do you know whether they reported that to FHA and offered to reduce the amount of the mortgages?

Mr. TRAUB. I don't think they did report it.

Senator BUSH. Wasn't it your duty, as their lawyer to keep them informed of the law so that they would proceed in accordance with the law?

Mr. TRAUB. It was.

Senator BUSH. Then wouldn't you have called their attention to this particular change in the law that Mr. Simon speaks of?

Mr. TRAUB. Senator, I don't interpret it. I don't interpret the law to say that.

Mr. SIMON. Let me show you the act, and ask you how you do interpret it.

Mr. TRAUB. You want my interpretation right now, Mr. Simon?

Mr. SIMON. Yes, sir, of the last sentence on page 22 there, which says:

In estimating these current costs for the purpose of said title, the Federal Housing Commissioner shall therefore use every feasible means to assure that such estimates will approximate as closely as possible the actual cost of efficient building operations.

How would you interpret that sentence?

Mr. TRAUB. Wouldn't this refer prior to the issuance of a commitment?

Mr. SIMON. Why, of course.

Mr. TRAUB. The question that the Senator asked me, wouldn't I advise my client that they were violating the law by not refunding the money?

Mr. SIMON. By reducing the amount of the mortgage.

Mr. TRAUB. I don't think this is applicable to that. This is the method of arriving at a commitment.

Mr. SIMON. Yes, but concedes that the initial obligation of that is that of the Commissioner and it is perfectly obvious that FHA paid no attention to this act of Congress.

Mr. TRAUB. Excepting this, Mr. Simon——

Mr. SIMON. Let me finish.

Mr. TRAUB. I am sorry.

Mr. SIMON. But your clients, knowing that the FHA Commissioner was ignoring an act of Congress, it seems to me you should have said to him, "Our actual costs are less and we therefore ask that the mortgage be reduced."

Mr. TRAUB. Mr. Simon, first of all I don't think my client violated any law. In the second place, I was familiar with the comments that came up in the Senate. The Senate, before the bill was passed and amended, thought that there may be money left over for these builders when they finished a job—

Mr. SIMON. Let me say to you that the Senate speaks only in the laws they pass.

Mr. TRAUB. I am talking about the comment.

Mr. SIMON. Individual Senators might have made such statements, but certainly the Congress is not responsible for what an individual Senator says. The Senate speaks through the laws they pass.

Mr. TRAUB. Except that the comments were made prior to the passing of the law.

Mr. SIMON. How could you interpret this law which Congress passed, as you say, after the comments of those Senators, which I think says as clearly as the English language permits, that the cost estimates—and we are agreed that a mortgage can be only 90 percent of the cost estimates—shall be as close as possible to the actual cost of efficient builders?

Mr. TRAUB. Mr. Simon, to my knowledge, and I had nothing to do with the computation of costs, the FHA didn't take the builder's estimate. They made their own estimate.

Mr. SIMON. Oh, I agree that FHA didn't comply with this act of Congress.

Mr. TRAUB. I did not say that. I say they didn't take the builder's estimate. They made up their own estimates of what the cost would be and predicated their commitments on the estimates that they made up. If I, as a builder, from my experience doing all this work, came into the FHA and said, "This building is going to cost me \$1 million," they didn't take my estimate and give me \$900,000 on it. They made their own estimates up and in many instances they were high and in many instances they were low.

Mr. SIMON. I apparently didn't make myself clear. The point I was trying to make is this: If your clients in the applications that they filed with FHA estimated the cost of these projects at roughly \$24 million—

Mr. TRAUB. Which is the first time I heard the amount today; yes. I will take that.

Mr. SIMON. You never saw these applications?

Mr. TRAUB. I did not until I saw one at the executive session.

Mr. SIMON. There is no question that that is the fact?

Mr. TRAUB. I agree, that is the fact.

Mr. SIMON. I take it you knew that the mortgage commitments were better the \$21 million?

Mr. TRAUB. I did.

Mr. SIMON. And by the mere process of mathematical process you could have known that the estimates therefore had to be \$24 million?

Mr. TRAUB. Correct.

Mr. SIMON. Your clients estimated these costs at twenty-four-million-odd dollars, and FHA estimated them at twenty-four-million-odd dollars. By a coincidence they were both off the same 25 percent.

Then before the final commitments were made on No. 5, they certainly must have known that on No. 1 they had both been off by 25 percent; is that right?

Mr. TRAUB. That is not right.

Mr. SIMON. Why isn't it?

Mr. TRAUB. The commitments had already been issued, Mr. Simon.

Mr. SIMON. The commitments had been issued, but the final closing does not occur until after the money is all paid out and the building is finished.

Mr. TRAUB. At that time; yes.

Mr. SIMON. My statement was that before they finalized out on No. 5 they certainly knew that the costs on No. 1 were off by roughly 25 percent?

Mr. TRAUB. They must have known.

Mr. SIMON. They must have known?

Mr. TRAUB. Yes.

Mr. SIMON. Don't you consider that under what Congress said in that law your clients should have gone to FHA and said, "Look, Mr. Housing Commissioner, you made a mistake by 25 percent and you had better reduce this mortgage"?

Mr. TRAUB. Excepting this, Mr. Simon: In the building business there is such a tremendous fluctuation between costs from one season to the next season—you can start a building with an estimate that it is going to cost you \$800,000 to build, and by the time you have got your people moved in that \$800,000 goes up to more than \$1 million, by strikes, increase in labor, and things of that sort. So that nobody knows what the entire cost of a project is until it is finished. They may be over one and under on another one.

Mr. SIMON. Certainly the fact is that when they finalized out on No. 5 they knew that they were over on all of them?

Mr. TRAUB. That is correct. There is no question about that?

Mr. SIMON. And they didn't tell FHA about it, did they?

Mr. TRAUB. I don't think they did.

Mr. SIMON. What is the Selden organization?

Mr. TRAUB. The Selden organization is a brokerage outfit.

Mr. SIMON. You have a lot of payments to them which on your books you charged against your fees. What were those for?

Mr. TRAUB. To the best of my recollection, they produced a mortgage and they were entitled to be paid that sum of money.

Mr. SIMON. I didn't understand.

Mr. TRAUB. They produced a mortgage, they obtained a mortgage, they arranged the financing.

Mr. SIMON. What building was that?

Mr. TRAUB. Little Neck.

Mr. SIMON. That was one of Kavy's; wasn't it?

Mr. TRAUB. That is right.

Mr. SIMON. When was that?

Mr. TRAUB. In 1951 or 1952.

Mr. SIMON. You had the first large disbursement on that of \$25,000, I believe, on February 10, 1950.

Mr. TRAUB. That is when the land was first purchased, Mr. Simon.

Mr. SIMON. And then in 1953 this Selden organization got paid; is that right?

Mr. TRAUB. That is right.

Mr. SIMON. And they got \$16,200?

Mr. TRAUB. That is right.

Mr. SIMON. Why should that come out of your fees if it was for obtaining financing for Little Neck?

Mr. TRAUB. Because I collected—there were two sections in this Little Neck section, 1 and 2. I collected a fee on 1 and 2, and paid them the \$16,000. This was as per agreement.

Mr. SIMON. Were you the lawyer in the case or were you the mortgage broker in the case?

Mr. TRAUB. I was the lawyer in this case.

Mr. SIMON. Why should the mortgage broker's fee be paid out of your fee?

Mr. TRAUB. That was my arrangement with Mr. Kavy and with the Selden-Mittleman organization.

Mr. SIMON. Mr. Traub, it is our obligation, at least I think it is, as much as we dislike it, to find out what happened to these cash payments and particularly to try to satisfy ourselves to what extent any part or all of them went to Mr. Powell.

Is there any written record anywhere by which we can determine the extent to which these cash payments were paid to people other than Mr. Powell?

Mr. TRAUB. In the first place there were no payments made to Mr. Powell. I make that definite statement.

Mr. SIMON. You have said that. My question is whether there is a written record, any books or ledgers anywhere that will establish that fact. You see, Mr. Powell won't talk. Mr. Schonfeld is dead.

Mr. TRAUB. I think Mr. Schonfeld, even though he is dead, will be able to talk.

Mr. SIMON. You think he has books?

Mr. TRAUB. Not books. I happen to be the attorney for the estate. He left a very large estate. We have not opened up the vault yet, because there is a contest there. I think when that vault is opened up most of that cash will be there.

Mr. SIMON. Is there any way that we will be able to know that the cash that is in his vault is the cash you gave him?

Mr. TRAUB. No; I don't think you will be able to know that.

Mr. SIMON. Is there any way that we can determine who got this cash that your books show you drew checks to in these substantial sums?

Mr. WEISMAN. Mr. Simon, I assume you mean a substantial amount of that figure because my accountant has also analyzed that figure and we have found that a great deal of this cash is readily explainable from the books through exchanges, through office expense.

Mr. SIMON. I have no thought that Mr. Powell got a half-million dollars here, but there is a half-million dollars to cash.

Mr. WEISMAN. Of that half-million dollars possibly \$200,000 can be explained from the books.

Mr. SIMON. That leaves \$300,000 that can't be explained.

Mr. WEISMAN. I didn't quarrel with you. I merely wanted to get the record straight because you were talking about that as if none of it can be explained.

Mr. SIMON. Very well, \$300,000 can't be explained.

As a matter of fact, as you know, there are a lot of cash payments in the period before this application was filed and we have not included those in our computations.

Mr. WEISMAN. That is right.

Mr. SIMON. We are concerned with the period during which the application was pending and I will be glad to say it is \$300,000 instead of \$500,000.

Mr. WEISMAN. Thank you.

Mr. SIMON. I would like to know if there is any written record that would establish who got that cash?

Mr. TRAUB. Unless when they open up Mr. Schonfeld's vault they find that record that he and I maintained. There is that possibility.

Mr. SIMON. Is there any other possibility?

Mr. TRAUB. No; not in my opinion.

Mr. SIMON. Mr. Traub, I am unhappy to leave the record uncertain as to whether you have any ledger books. You haven't yet said you don't have them.

Mr. TRAUB. I don't know.

Mr. WEISMAN. May I say that your Mr. McManus made a complete inventory of all the books.

Mr. SIMON. Oh, no, no, Mr. Weisman. He made an inventory of the books that were produced at your office.

Mr. WEISMAN. I was going to say that. Mr. Traub will testify here that the books produced at our office were all the books he had. That is what I asked him.

Mr. SIMON. Let's get this clear. Do you contend that there was in the books you sent to Mr. Weisman's office a ledger sheet showing the accounts of your clients?

Mr. TRAUB. I say I don't know what books, but I know we sent all the books that we had over to Mr. Weisman?

Mr. SIMON. Maybe we missed one over there. I am now asking you whether you have a ledger book that shows the accounts of your clients?

Mr. TRAUB. Mr. Simon, I have told you 3 or 4 times I don't know what books were maintained in my office. I don't know whether it was a ledger book or a cash and disbursement book.

Mr. SIMON. Can you find out for us whether your office maintained a ledger book that will show Kavy's account and Kaskell's account?

Mr. TRAUB. I can find that out.

Mr. SIMON. How do you file your income-tax returns?

Mr. TRAUB. My accountant prepares my income-tax returns.

Mr. SIMON. Who is your accountant?

Mr. TRAUB. Sam Greenberg.

Mr. SIMON. How does he know whether this \$35,000 item is a payment on a loan or when it says "Client's expense" it is a disbursement for a client?

Mr. TRAUB. He would be able to explain the way he carries the thing. I don't know.

Mr. SIMON. How would he know who got these items if you don't know who got them?

Mr. TRAUB. Oh, I think he knows who got the items. He knows that Schonfeld got the cash.

Mr. SIMON. On each of the items that you have testified to that were payable to cash, and you don't know who got them, can your accountant testify under oath who got them?

Mr. TRAUB. Oh, no. He knows of the indebtedness that existed between Schonfeld and myself.

Mr. SIMON. I thought we had established quite some time ago that the indebtedness between you and Schonfeld doesn't begin to account for the cash payments, and even if we are extremely liberal and take Mr. Weisman's \$200,000 that he can account for, and your two hundred some thousand dollars you say you paid Mr. Schonfeld in cash, we are still short \$100,000 of cash.

Mr. TRAUB. I don't think so. I don't think it was that much money, Mr. Simon. According to that \$575,000—I don't think I ever issued that much.

Mr. SIMON. What was that?

Mr. TRAUB. You say if you take the \$300,000 figure and you credit \$275,000 to Schonfeld, you are still short \$100,000. I don't think there was that much cash at issue.

Mr. SIMON. Oh, there was.

Senator BUSH. Who prepares your income tax returns, Mr. Traub?

Mr. TRAUB. Mr. Greenberg, my accountant.

Senator BUSH. He is your accountant?

Mr. TRAUB. Yes.

Senator BUSH. How did he do it if you have no records?

Mr. TRAUB. I have records.

Senator BUSH. They don't indicate what the payments are for and what the income is for. How can he tell what is income and what is expense?

Mr. TRAUB. He has been preparing my income tax for the last 5 or 6 years.

Senator BUSH. I assume he has, yes, but I don't see how he can do it without your knowing and being able to tell him or identify on your accounts what the payments are for and what the income is for. Some of it is loans that you get in the way of income apparently, and some of it is for fees for services rendered. On the other hand, you pay out all kinds of money for exchange or for loans or payment of loans, expenses, but it is not identified.

How can you make out an income tax return from those records?

Mr. TRAUB. I assume that he supervises, takes care of the records and makes it up from the records.

Mr. WEISMAN. Senator, it isn't quite as you understood it.

Senator BUSH. I am just saying from what the witness says that he doesn't have records which one would think is sufficient to make out an income tax. He is not in a position to account for his payments out or his payments in.

Mr. WEISMAN. The accountant I engaged tells we that this thing follows a pattern, that it could be made up.

For example, merely to enlighten you and the committee, when he had one bookkeeper these payments charged to Schonfeld we found

followed a pattern that they would be entered in the office expense. When he had another bookkeeper she would enter them into clients' expense.

When I spoke with Mr. Traub and sought to find out the reason for this, we find out that there is an agreement between him and his partner that these prior debts——

Mr. SIMON. Let's get him to testify to that because he has told us he has no partners. You told us it is your law office?

Mr. TRAUB. When did I say that?

Mr. SIMON. At the first session we had up here this morning. I think, Mr. Weisman, we ought to get the testimony of the witness.

Senator BUSH. Let's follow Mr. Simon's suggestion and have the witness testify.

Mr. SIMON. I think we ought to have it under oath.

Senator BUSH. Did you wish to comment along the line that Mr. Weisman was speaking or not?

Mr. TRAUB. About the books, I cannot comment, Senator.

Senator BUSH. You just can't account for the books at all?

Mr. TRAUB. I have never made one entry in the books all these years.

Mr. SIMON. Did you say that Mr. Greenberg was your accountant?

Mr. TRAUB. Greenberg & Fishman.

Mr. SIMON. We have just tried, since we have been talking with you, to get hold of Mr. Greenberg, and we find that he is both sick and out of town. When did you see him last?

Mr. TRAUB. About 2 weeks ago, or 3 weeks ago.

Mr. SIMON. Have you talked to him in the last 2 or 3 weeks?

Mr. TRAUB. In the last 2 or 3 weeks; yes.

Mr. SIMON. Did you make any effort with him to get your books in order and get them to us?

Mr. TRAUB. No; I did not discuss my books with him.

Mr. SIMON. When did you talk to him last?

Mr. TRAUB. About 2 weeks ago.

Mr. SIMON. Where was he then?

Mr. TRAUB. He was in the city.

Mr. SIMON. Do you know where he is now?

Mr. TRAUB. He is up near Monticello, some place. He runs a camp. He is away for the summer. He does not come back until the camp closes up.

Mr. SIMON. Is he sick up there?

Mr. TRAUB. I don't know.

Mr. SIMON. His office tells us this morning that he is both sick and out of town. Do you know anything different from that?

Mr. TRAUB. I know he is out of town. Whether he is sick or not, I don't know.

Mr. SIMON. Our computation of these cash items, Mr. Traub, is that in 1947 there were checks to cash of \$132,000. These are on the sheets you have.

In 1948 there were checks to cash of \$529,000.

In 1949 there were checks to cash of \$63,000. The sheet shows 58, but there was the \$5,000 one we showed you that was omitted from this sheet.

In 1950, \$126,000; 1951, \$87,000; 1952, \$76,000; 1953, \$96,000; 1954, \$25,000.

A total of \$1,120,000 in checks to cash.

Mr. WEISMAN. I don't think you are right. I added those up.

Mr. TRAUB. He included 1947 and 1948.

Mr. WEISMAN. I beg your pardon.

Mr. SIMON. Yes; \$1,120,000. Let me make clear, we are not suggesting for a minute that that entire sum went to the sources we are concerned about. In fact, it is a very small part of that that we are looking for. But those are the checks that went to cash; is that right?

Mr. TRAUB. You have brought in here what before the FHA section 608 ever existed, so I don't think it is fair to give an amount of \$1 million when section 608 didn't even exist. I can explain the 1947, 1948.

Mr. SIMON. Section 608 existed from 1942 to 1950.

Mr. TRAUB. Under section 207.

Mr. SIMON. I am talking of section 608, 1942 to 1950. Congress passed section 608 in 1942. I am perfectly willing to make clear that we don't contend or don't suggest for a minute that any substantial part of that million dollars—the only reason I mention it is that you are saying \$275,000 went to Schonfeld, who isn't here, and \$200,000 went some other place, and I just want to make clear that there is still plenty of room left for the relatively small—and I say relatively only in comparison with the total figure we are talking about—amount of money we would like to make sure, satisfy ourselves from your books, didn't go where we think maybe it might have gone.

Mr. TRAUB. I think I can satisfy you. If you eliminate 1947 and 1948 you will then come down to cash checks of about—

Mr. SIMON. Can you satisfy us by a written record?

Mr. TRAUB. I cannot.

Mr. SIMON. Thank you.

Senator BUSH. Just a few more questions, Mr. Traub. This group, the Hirsh group, paid you these sums that we mentioned and you said that \$125,000 of that was not in the payment of fee but was in the form of a loan to you. There was no note and there was no interest rate and no payments have been made to them in connection with that loan, which was made to you 4 years ago. That is right, is it?

Mr. TRAUB. Yes.

Senator BUSH. Why was that money loaned to you?

Mr. TRAUB. Senator, you are asking me to bring out a situation that is embarrassing but I will bring it out. In 1949 I found myself that I owed on guaranties on matters that I had taken care with clients, investments, and everything, a tremendous sum of money.

Mr. WEISMAN. How much?

Mr. TRAUB. It was close to \$2 million. I owed Schonfeld way over a million dollars. I owed a lot of people money.

I went to some of my dear friends and clients and told them that I needed money, I didn't know when I was going to pay it back or if I ever was going to be able to pay it back to them.

I had represented them for 15 or 20 years before this Farragut. I went to them and said I wanted them to lend me \$125,000, and again I repeat, I told them I didn't know when I would pay it back or if I would.

Mr. SIMON. Had Mr. Hirsh forgotten about that? He said the Nustrand money was loaned to these corporations in the real-estate business.

Mr. TRAUB. He didn't consider that. You never asked him whether he loaned me any money.

Mr. SIMON. I specifically asked him with this very thought in mind.

Mr. TRAUB. On top of this \$125,000 Hirsh loaned me another \$75,000 personally, which I am paying him back slowly, without interest, and I still owe him money.

Senator BUSH. What did you do with that money?

Mr. TRAUB. Which money?

Senator BUSH. The \$125,000 that was loaned to you.

Mr. TRAUB. I paid it back to my people who I guaranteed money, who had made investments based on my guaranties.

Senator BUSH. You mean you created one creditor to pay off another?

Mr. TRAUB. That is correct.

Senator BUSH. What type of guaranty do you refer to there?

Mr. TRAUB. Oh, mortgage guaranties, purchases of buildings that they wouldn't lose any money, things of that sort.

Senator BUSH. Did these mortgages which you had guaranteed go into default during this period?

Mr. TRAUB. They did.

Senator BUSH. In those very large amounts that you mention, \$2 million?

Mr. TRAUB. No. This was an accumulation of maybe 100 or 150 guaranties that amounted to that money. It was not one situation.

Senator BUSH. It is very surprising that during this rising trend over that long period that you would have gotten, so smart a man as you said you were a little while ago, that you would have gotten yourself into that kind of a jam.

Mr. TRAUB. Had I been able to hold out a year or two longer I wouldn't have been in that jam, but I was not able to hold out long enough.

Senator BUSH. For what purpose was the \$1,600,000 loaned to you by Schonfeld?

Mr. TRAUB. He would lend me \$100,000 to enable me to purchase a piece of property of another client of mine which I guaranteed. When that client walked away or dropped the property I owed Schonfeld that \$100,000.

Senator BUSH. What was Mr. Schonfeld's business?

Mr. TRAUB. Investments. A lender of money.

Senator BUSH. An investor?

Mr. TRAUB. A lender of money. He never owned any real estate.

Senator BUSH. He was a wealthy man?

Mr. TRAUB. Very wealthy.

Senator BUSH. Do you know what his estate was valued at when he died?

Mr. TRAUB. His estate, in my opinion, was valued at about \$2½ million.

Senator BUSH. Was the \$1,600,000 loan to you one of the assets in that estate when he died?

Mr. TRAUB. No. He has been paid back by me everything excepting I still owe him about \$20,000. I still owe the estate \$20,000.

Senator BUSH. And had you paid back then practically all of the \$1,600,000 that he loaned you?

Mr. TRAUB. Yes.

Senator BUSH. Did you pay that back through services rendered, or in cash?

Mr. TRAUB. I paid that back—about \$1,100,000 or \$1,200,000 was paid by checks either of mine or of clients. The balance I paid him in cash.

Senator BUSH. That is all that we require. Thank you very much.

Mr. WEISMAN. Mr. Simon, in going over this affidavit that was submitted to you, I found that there were discrepancies.

Mr. SIMON. Many of them?

Mr. WEISMAN. There were discrepancies in that certain moneys that he had received on account of these projects were not entered in the affidavit and certain moneys were, and we would like to make that correction.

Mr. SIMON. We would be happy also if you could give us the address of those bookkeepers we have been unable to find. And if you could tell us whether there exists any ledger sheets that will explain the condition of these clients' accounts so we can find out whether there were contra-entries to the \$1,078,000 to Kaskell, whether we can find out how these items totaling a half million dollars paid out in cash and charged to clients' expense were entered in the books.

If you will tell whether there exists such a ledger sheet—

Mr. WEISMAN. When I got into this case last week I immediately engaged, for my own edification, the services of an accountant. I have put this accountant on these books last night. I had them up to last night. We worked almost until the morning today to get it. I will get a copy of this transcript and will seek to cooperate with you as I think you will concede that irrespective of troubles, whether they were real or fancy with Mr. Traub, we have endeavored with every reasonable degree to cooperate with this committee.

Mr. SIMON. I can't quarrel with what you have endeavored to do, Mr. Weisman, but I do know we have not received the information.

Senator BUSH. Wait a minute—

Mr. SIMON. If you have hired an accountant to straighten this out, why didn't you get hold of Mr. Greenberg?

Mr. WEISMAN. I will tell you why I didn't get hold of Mr. Greenberg. I tried to get hold of Mr. Greenberg. When I got into this case I asked Mr. Traub to get hold of Mr. Greenberg. Mr. Greenberg was out of town. I then sought to get—

Senator BUSH. You didn't think it was important enough for him to come back to town with a case like this before this committee?

Mr. WEISMAN. I couldn't get him back.

Mr. SIMON. Why?

Mr. WEISMAN. I didn't know until I got on the books how badly I needed him. I wanted him generally to advise me. I only got these books, as your men know, and as you know I have been laid up myself, I have not been well—it seems a plague hits everybody in this case.

Senator BUSH. I think Mr. Traub ought to find some healthy people to help him here.

Mr. WEISMAN. May I also say this for the record, that your accountants have made an analysis where they set forth certain items that we failed to report and certain items which we got in excess of the report. I think they are pages 21 or 22. We would like our affidavit for the purpose of this hearing to be amended to conform with your accountants' findings.

Mr. SIMON. I don't understand, Mr. Weisman, how you can amend an affidavit.

Mr. WEISMAN. I should say the information we furnish to you.

Mr. SIMON. We do have in our files the information you seek and we would like to get the additional information of the addresses of these bookkeepers and we will send someone over to your office this afternoon, if we could get that information, and also to know whether there exists a ledger sheet to show the accounts of these people.

Mr. WEISMAN. I don't think I can get it for you by this afternoon.

Mr. SIMON. You certainly could give us the addresses of the bookkeepers this afternoon.

Mr. WEISMAN. I will try. I don't say that I can.

Mr. SIMON. You could certainly tell us where Greenberg is this afternoon.

Mr. TRAUB. I can tell you that. Camp Togola.

Mr. SIMON. Where is that?

Mr. TRAUB. Right outside of Monticello.

Mr. SIMON. In New York?

Mr. TRAUB. Yes.

Mr. SIMON. Can you tell us now where these two bookkeepers are?

Mr. TRAUB. I do not know, Mr. Simon.

Mr. SIMON. Can you give us that this afternoon and tell us whether there exists a ledger book such as we are talking about?

Mr. TRAUB. I can't promise to give you the address of these two girls this afternoon, or tell you about the book this afternoon. I have sent all the books over to Mr. Weisman's office.

Mr. SIMON. Certainly you have talked to Mrs. Krahan. She won't tell us anything over the telephone. You must have other people in your office who will know whether there is a ledger book that shows your accounts.

Senator BUSH. The committee will stand in recess until 2 o'clock.

(Whereupon, at 12:40 p. m. the committee recessed until 2 p. m.)

AFTERNOON SESSION

Senator BUSH. The committee will be in order.

Is Mr. David Kent here? Mr. David Kent. Mr. Kent is under subpoena to be here today. We called for him this morning and he is not now here.

Mr. George M. Halk of the Dry Dock Savings Bank of New York.

A VOICE. Mr. Halk is on his way in.

Senator BUSH. Mr. Halk, will you stand, please, and raise your right hand? Do you solemnly swear that the testimony which you will give before this committee will be the truth, the whole truth and nothing but the truth, so help you God?

TESTIMONY OF GEORGE M. HALK, JR., APPRAISER, DRY DOCK SAVINGS BANK, NEW YORK, N. Y.

Mr. HALK. I do.

Senator BUSH. Will you kindly give your name and your correct address and so on to the clerk?

Mr. HALK. George M. Halk, Jr., appraiser for Dry Dock Savings Bank, 742 Lexington Avenue, New York.

Mr. SIMON. Mr. Halk, are you familiar with the project in Brooklyn known as Vanderveer Estates and owned by the five Farragut Gardens corporations?

Mr. HALK. Yes, sir.

Mr. SIMON. I believe the Dry Dock bank holds the mortgage on one of those projects, does it?

Mr. HALK. That is right. No. 4, I believe it is.

Mr. SIMON. At our request have you recently made an appraisal of those properties?

Mr. HALK. Yes, sir.

Mr. SIMON. And does that appraisal include all 5 corporations and the entire 2,500 apartment projects? I think the actual figure is 2,496.

Mr. HALK. That is right, 2,496 apartments.

Mr. SIMON. Your appraisal includes the whole unit?

Mr. HALK. Yes, sir.

Mr. SIMON. For the purposes of your appraisal, have you combined the land and the buildings?

Mr. HALK. Yes, sir.

Mr. SIMON. Although you know that these corporations do not own the land, is that right?

Mr. HALK. That is right.

Mr. SIMON. Would you tell us, sir, what your appraisal is of the present value of the land and the buildings in the Vanderveer Estates project? We will be perfectly happy to have you use your report.

Mr. HALK. That is all right. I want you to understand that this value which I put on it is based on the fee simple with no encumbrances, no mortgages, a free and clear basis, no mortgages or leases.

The value that I arrived at was \$16,500,000.

Mr. SIMON. How much of that value did you assign to the land exclusive of the buildings?

Mr. HALK. \$2,700,000.

Mr. SIMON. And if you were to separate it, would it be your opinion that the buildings were worth \$13,800,000?

Mr. HALK. That is right.

Mr. SIMON. The Government now has insurance on a mortgage of approximately \$20 million on those buildings, is that right?

Mr. HALK. I believe it is something like that. I don't know the exact figure.

Mr. SIMON. It was originally in excess of \$21 million and it is now paid down to roughly \$20 million, and your opinion is that the value of the buildings, exclusive of the land, is \$13,800,000?

Mr. HALK. Yes.

Mr. SIMON. Would you tell the committee how you reached that valuation, Mr. Halk?

Mr. HALK. Yes. We had our architect examine the buildings while some of them were under construction. He was the one who gave the bank a report, and I used that report in arriving at my valuation.

Mr. SIMON. Did your architect examine the plans and specifications and did he give the bank a statement of what it would cost to build these buildings under those plans and specifications?

Mr. HALK. Yes, sir. He gave the building cost to be \$15,395,000.

Mr. SIMON. \$15,395,000?

Mr. HALK. Yes, sir.

Mr. SIMON. And that of course did not include the land or the financing charges?

Mr. HALK. That is right.

Mr. SIMON. Would you go on, please, and tell us the rest of your appraisal?

Mr. HALK. In what respect?

Mr. SIMON. I think you have some other factors you considered in reaching this valuation.

Mr. HALK. Do you want me to read from here?

Mr. SIMON. I think if you would summarize what you have in your report, Mr. Halk—

Mr. HALK. I think it would be better if I read right from this one page.

Mr. SIMON. All right. Is that agreeable, Mr. Chairman?

Senator BUSH. Perfectly all right.

Mr. HALK. Maybe I might inject this comment. These buildings were completed in 1951. Therefore the accumulated depreciation based on a 30 year life is $3\frac{1}{3}$ percent a year or approximately 10 percent depreciation. The estimated cost of the entire project is \$15,395,130. Less 10 percent depreciation. Present building value \$13,855,617. Present land value, at \$3 per square foot, \$2,696,775. Present fair value, \$16,552,392.

The original FHA approved rents for this project were \$29.85 per room, including gas and electricity. But on completion, either because of rental conditions or because of substandard construction these rents were not obtained. Some additional value is attributable to the fact that as and when market conditions permit rentals can be increased, up to \$29.85, without the necessity to obtain FHA approval.

As at June 30, 1953, the average rents currently being received were \$24.79 per room. Since that time the owners have been able to obtain higher rents from incoming tenants and probably in some cases on renewals.

For the purpose of appraisal, I have stabilized the rentals of Vanderveer at \$26 per room and feel that with proper management these rents could be maintained and possibly increased since there is still a demand for apartments at this price level.

For example, Mansfield Gardens, another section 608 project, in the same general area at present is fully rented at \$28.85 per room. This is also a 6-story apartment and contains 360 apartments with 1,272 rooms and 195 garage spaces. It is three blocks south of Vanderveer and was also completed in 1951. Mansfield Gardens has better

design and construction but the rents obtained there support my belief that \$26 can reasonably be adopted for the present valuation.

The garage spaces have been poorly rented and the total number of garage spaces have been reduced from 1,626 to approximately 1,200 and the space released is now used for workshops and storage. Of the 1,200 garage spaces now available, approximately 50 percent are rented. Tenants in the project pay \$10 per month and outsiders can rent space for \$15 per month.

Approximately 600 garages are rented at the present time and at a rental of \$10 per month. The indicated minimum garage rental is \$6,000 per month, or \$72,000 per year. For the purpose of appraisal I have used a stabilized garage rental of \$72,000 which I feel could also be improved with better management of the project.

A consolidation of the accountant's figures on the entire project for the period July 1, 1952, to June 30, 1953, are shown below and compared with project analysis, based on section No. 4, all based on FHA room count, 9,624 rooms.

Mr. SIMON. What has been your experience, Mr. Halk, in appraising properties?

Mr. HALK. In what respect?

Mr. SIMON. How long have you been doing this?

Mr. HALK. Over 20 years.

Senator BUSH. Are you an officer of the Dry Dock Bank?

Mr. HALK. Yes, sir.

Senator BUSH. In what department do you function?

Mr. HALK. Appraiser.

Senator BUSH. You are the appraiser for the bank?

Mr. HALK. Yes, sir.

Senator BUSH. So that your principal occupation for the bank is to appraise projects on which the bank lends money?

Mr. HALK. That is true.

Senator BUSH. How big a commitment in mortgages would you say the bank has today, approximately?

Mr. HALK. How much in mortgages?

Senator BUSH. Yes. Is the bank a large purchaser of mortgages?

Mr. HALK. Yes, sir.

Senator BUSH. To what extent would you say that its investment portfolio is in mortgages?

Mr. HALK. About 60 percent. A total of \$550 million.

Senator BUSH. So that you probably have upwards of \$300 million invested in mortgages?

Mr. HALK. That is about right.

Senator BUSH. Your job is to see that the bank makes investments that are sound when it goes into the mortgage market?

Mr. HALK. That is true.

Senator BUSH. That is the reason you are the appraiser.

Mr. HALK. Yes, sir.

Mr. SIMON. I take it it goes without saying, Mr. Halk, that a property which you would value at \$13,800,000 is not a sound security for a \$20 million Government-insured mortgage?

Mr. HALK. No, sir.

Senator BUSH. May I ask you this? This may not be in your field. Is it true that when a financial institution such as a savings bank or a

savings and loan association lends money on an FHA mortgage that they look primarily to the Government credit rather than to the value of the building itself?

Mr. HALK. Primarily they would. But usually we would go out and look at a location and check on the rent and see whether the location is good and can be improved and see what rents can be obtained at that figure.

Senator BUSH. The practice of your bank is to proceed on an FHA loan much as though it is not guaranteed, is that right? Is your investigation on an FHA insured loan exactly the same as it would be if it were not insured?

Mr. HALK. No, it is not the same.

Senator BUSH. In other words, you do rely somewhat on the fact that it is insured by the Federal Government?

Mr. HALK. To a great extent.

Senator BUSH. And that therefore provides an indisputable credit?

Mr. HALK. Yes.

Senator BUSH. Mr. Kenney.

Mr. KENNEDY. Did you make the appraisal on this property at the time it was being considered by the Dry Dock Savings Bank?

Mr. HALK. No, sir; we did not make an appraisal at that time.

Mr. KENNEDY. Did you commit at that time to buy one of the mortgages?

Mr. HALK. I believe the bank committed to buy it.

Mr. KENNEDY. Who made the appraisal for the bank?

Mr. HALK. We didn't make any appraisal for the bank. We had no appraisal made for the bank. We accepted the FHA's figures.

Mr. KENNEDY. But the bank was willing to purchase the mortgage at that time without their own appraisal?

Mr. HALK. Yes, sir.

Mr. KENNEDY. Do you have any explanation to make as to the difference in the appraisal of the FHA and your own appraisal as of this date?

Mr. HALK. I took it on the basis that the property could be sold on a conventional basis, that an investor would come in and buy it. That is the way I figured it. Nobody would pay any more than probably \$16,500,000, provided they could get a two-thirds loan. They would probably get terms of 7 percent on that mortgage, and then they would earn about 10 percent on their equity.

However, if the management was improved there is a possibility for the rents being increased. An investor might say, "Here is a chance to make more than my 10 percent." There is also the possibility of having the taxes reduced. That would also give him more income on his investment.

I took those into consideration in arriving at my valuation.

Mr. KENNEDY. Your appraisal is as of today?

Mr. HALK. That is right.

Mr. KENNEDY. And the appraisals that were made for FHA were in 1948 and 1949?

Mr. HALK. Yes, sir.

Mr. KENNEDY. Is there any change in the economic conditions or basic conditions that might result from a considerable difference in the appraisals as between these two dates?

Mr. HALK. I am pretty sure today they are higher than in 1947 or 1948.

Mr. KENNEY. That is all.

Senator BUSH. Thank you very much, Mr. Halk. We appreciate very much your cooperation with the committee.

Senator BUSH. Mr. Hedges, will you raise your right hand? Do you solemnly swear that the testimony which you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HEDGES. I do.

TESTIMONY OF BYRON HEDGES, INVESTIGATOR, SENATE BANKING AND CURRENCY COMMITTEE

Senator BUSH. Mr. Hedges, will you identify yourself, please, for the record?

Mr. HEDGES. I am an employee of the Senate Banking and Currency Committee.

Senator BUSH. What is your official connection with this proceeding?

Mr. HEDGES. I am an employee of the Senate Banking and Currency Committee as one of their staff investigators.

Mr. SIMON. At our request, Mr. Hedges, did you examine the Farragut Gardens project to determine the manner in which it was constructed?

Mr. HEDGES. I did, Mr. Simon, a month ago.

Mr. SIMON. Will you tell the committee, first, your experience in inspection of real-estate properties?

Mr. HEDGES. I have been with the American Appraisal Co. that keeps 150 men in the field in that kind of work. Also, I have been with the G. C. Hetricks Co. of St. Louis that maintains a staff in the field for that kind of work.

Mr. SIMON. How long were you with those two concerns, Mr. Hedges?

Mr. HEDGES. Oh, periodically off and on in the last 7 years.

Mr. SIMON. Was your work with them the inspection of real-estate properties for the purpose of making appraisals?

Mr. HEDGES. Appraisals for loans, for insurance, or settlement of insurance damages where it had to be meticulously cut off.

Mr. SIMON. Would you tell the committee, please, what you found in the way of adequate or inadequate construction of the Farragut Gardens project?

Mr. HEDGES. Taking one unit at a time, unit 4, I found 14 places in which the foundation had been repaired. There were foundation cracks that had been repaired. There were three breaks since the repair.

Mr. SIMON. What significance do you attach to the breaks in the foundation?

Mr. HEDGES. The soil condition under the foundation was not sufficiently stable or not sufficiently settled, and this building with six stories' weight was setting on it, causing it to settle. There would be some settling in any building, but not to this extent.

Mr. SIMON. What is the likely prospect of that condition with respect to the effect on the building over the next 30 years?

Mr. HEDGES. It could have broken as much as it is going to already. It is hard to tell. I would say that there is a definite damage to the building which will probably shorten the life of the building because the cracks will extend on up through the building as time goes on.

Mr. SIMON. Will you continue, please?

Mr. HEDGES. The foundations were covered on the outside with stucco, and in a number of places it has fallen off and been replaced. That shouldn't happen in 10 years.

Mr. SIMON. How old is this building?

Mr. HEDGES. This one was built I believe in 1951.

Mr. SIMON. So that it is 3 years old?

Mr. HEDGES. Three years old.

I noticed particularly in this building there were two cracks 8 feet long in the foundation. I mention that 8 feet long to signify that it is not just a minor thing but a serious crack.

As to the outside walls, there were three places that the wall had been torn into and repaired. One serious crack. There were many bricklaying defects where you could walk up to the wall and could stick a pencil through the wall halfway, 2 or 3 inches into the wall between the bricks, where the mortar was missing.

A number of times I rubbed my finger across the mortar and my finger came out white. In 3 years there shouldn't be anything left to rub off on a person's finger. There was just a general condition of sloppy or hurried bricklaying.

The windows were bad. They needed paint. The frames were of poor quality. I might say this building is 3 years old. I doubt if the windows should be in that bad condition. Three years would justify possibly some more painting, but not that bad.

The steps were broken. There is an iron rail from the door down alongside the stoop and it is fastened into a brick wall, and the least bit of shaking on it makes the wall break.

Mr. SIMON. The wall breaks?

Mr. HEDGES. The stoop wall, the banister effect breaks the stoop wall.

The most serious thing is the roof. On this one building I counted 10 bulges where the roofing material had been either put on cold or hadn't been permitted to lay out flat, to straighten out. As soon as the weather hit it, it bulged. You can go across the roof and put a pencil between one layer and another, freely.

I might say in connection with this that if that roof is not repaired very shortly or replaced there is going to be serious damage to the whole building.

Mr. SIMON. Why is that, Mr. Hedges?

Mr. HEDGES. Water is coming through this roof and is taking the plaster off the sixth floor now. I did see a number of places where the plaster was wet on the ceilings on the sixth floor supporting that and coming through the bulkhead at the side of the stairs, doing definite damage to the wall.

On the interior walls a plastic or asphalt tile board was used, and it was stuck on so loosely that we walked about and took our finger and

pulled the baseboards away from the wall with one finger. The condition is still there.

The interior walls in a number of places showed spoiling where the paint or the plaster was slipping. There was some reason to believe that there was an inferior quality of plaster used.

I didn't have time to tear a piece of the wall off and have it analyzed, but there have been two tests made of that wall. One reported 4½ to 1 sand to plaster. The other reported 3 to 1—3 to 1 would have been correct, but there is evidence that there was not sufficient cement in the mortar, and they are going to have plaster trouble for a long time.

Mr. SIMON. Mr. Hedges, would that reduce the cost of the building by reducing the mortar content in the plaster?

Mr. HEDGES. A half to 1 percent. It could reach that proportion.

Senator BUSH. On the whole building?

Mr. HEDGES. Yes.

Senator BUSH. A substantial item?

Mr. HEDGES. It could be.

I noticed several cracks had been repaired in the garage walls, but half of it was unoccupied and used for storage. It just seemed to be a sort of unnecessary space, if I may express it that way.

In the yard and outside there has been a very extensive improvement in the last 50 days. In talking with some people they said it was like a desert up to that time. The shrubbery was very small, worthless, and the grounds were bare. In the past 60 days there has been a serious effort made to seed those lawns and start them.

Senator BUSH. Have you any idea what prompted that improvement program?

Mr. HEDGES. Senator, I believe your idea is the same as mine.

Senator BUSH. I have expressed none. I just wondered.

Mr. HEDGES. I don't intend to, either.

Mr. SIMON. Go on.

Mr. HEDGES. I fortunately obtained some photographs that were made during this construction. This one, I think, would show a condition worthy of this committee seeing. There is debris and wall cracks. That is an incinerator wall you are looking at, Senator. Notice the wall cracks in the side of it.

Mr. SIMON. What caused those cracks in the wall above the door?

Mr. HEDGES. Very possibly the back wall of that incinerator is not sufficiently insulated or it is burning hotter. It may be a cheap incinerator and it is just beginning to show up.

Mr. SIMON. Do the black marks indicate where smoke is coming through the cracks?

Mr. HEDGES. They do on another one I have here. It does not on that particular print.

Senator BUSH. Did you talk with any of the tenants out there when you were examining this property?

Mr. HEDGES. I did.

Senator BUSH. Did you find any complaints from them or not?

Mr. HEDGES. I had to be just a little bit careful or I would have still been out there.

Senator BUSH. Well, even so, as careful as you were, can you give us an idea of what your reaction was in talking with the tenants?

Mr. HEDGES. As soon as you showed up and knocked on the door and identified yourself—I said, "I am an inspector, I want to look at the

building a little bit," they very happily invited you in and showed you cracks in the wall or showed you this condition or that. Frankly, Senator, they are too numerous to go into at this time.

Senator BUSH. In other words, my point is that you would say in talking with the tenants you found a great many complaints?

Mr. HEDGES. Yes.

Senator BUSH. Of faulty construction and things coming apart and so forth?

Mr. HEDGES. That is right.

Mr. SIMON. Mr. Hedges, this Government-insured mortgage has 30 years to run. Can you tell us what you anticipate would be the condition of that building in 30 years?

Mr. HEDGES. If there is not an extensive repair or improvement program immediately, that building won't last 30 years.

Mr. SIMON. Thank you.

Senator BUSH. Any questions?

Mr. KENNEY. Yes.

Did you estimate what it would cost to make the necessary repairs at this time?

Mr. HEDGES. I did not sir, because it goes into how many ceilings in how many apartments would have to be redecorated. I don't know. It would be extensive.

Mr. KENNEY. Any buildings that are 5 years old would naturally have some deterioration.

Mr. HEDGES. Certainly.

Mr. KENNEY. This deterioration that you have noticed would be in excess of what would be ordinary deterioration?

Mr. HEDGES. Considerably in excess, sir.

Mr. KENNEY. Do you know whether or not during the construction of the building there was adequate inspection, adequate inspectors to make the necessary inspections?

Mr. HEDGES. I interviewed one of those inspectors and had quite a discussion with him. He stated in my presence and in the presence of some others of our staff that on making the 9-month inspection—that is the inspection on which they release the subcontractors from their guaranties—that he only had time to look in 3 apartments or maybe 4 of the 2,490 some, I believe it is.

Senator BUSH. In other words, he only looked at about 3 or 4 units out of 2,400 units?

Mr. HEDGES. That is correct, sir.

Senator BUSH. 2,496, Mr. Simon says. What did he mean by he "only had time to"?

Mr. HEDGES. This inspector, it seems, had that project and then the FHA New York office assigned him a project, also to supervise at the same time, in Flushing, N. Y. That meant that each day, according to his report, he had to travel from this location in Brooklyn to a 400-room project at Flushing. That, I believe, would take considerable time to make that round trip.

Mr. KENNEY. This inspection you are talking about is the inspection that is made 9 months after the building is completed for the purpose of determining whether or not the subcontractors may be released?

Mr. HEDGES. That is correct, sir.

Mr. KENNEY. Can you tell us anything about the inspection that was made upon completion of the building?

Mr. HEDGES. Mr. McCartney, the inspector, stated that he did inspect thoroughly and prepared what he called a punch sheet where as he went around he marked things for them to do over to complete the insurance.

Senator BUSH. Were there any holes in it?

Mr. KENNEY. Did he say how many apartments he had inspected at that time?

Mr. HEDGES. He said at that time he had inspected all of them.

Mr. KENNEY. Do you have any idea of the extent of the punch-sheet list?

Mr. HEDGES. I do not, sir.

Mr. KENNEY. As far as he was concerned, do you know whether or not the building had been satisfactorily completed at that time?

Mr. HEDGES. Would you state that again, sir?

Mr. KENNEY. As far as the inspector, Mr. McCartney, is concerned, do you know whether or not the building had been completed to his satisfaction at that time?

Mr. HEDGES. Well, these repairs or changes that the punch sheet calls for happens after his inspection, so he did submit some sort of list of additional things to be done.

Mr. KENNEY. You don't know whether they were done or not?

Mr. HEDGES. I do not know, sir.

Mr. KENNEY. These deficiencies that you have mentioned, are they mostly structural or mostly finishing deficiencies?

Mr. HEDGES. Both, sir.

Mr. KENNEY. Would you mind briefly enumerating the structural deficiencies?

Mr. HEDGES. Structurally, the foundations I mentioned a little bit ago, the parapet walls were cracking.

Mr. KENNEY. To what extent did that happen?

Mr. HEDGES. There were numerous small cracks in the parapet walls. I am not aware of how far those will go because I am not familiar with New York vibration or what might cause those to extend farther.

However, there are definite breaks in the parapet wall. It could stop today and never go any farther, and they could go clear to the ground.

The inner walls were showing some cracks of settling. They were not load-bearing walls, but were definitely structural defects.

Mr. KENNEY. Are such settlement cracks usual in new construction?

Mr. HEDGES. Yes, sir, but not to the extent that they are seen in Farragut.

Mr. KENNEY. That is all.

Senator BUSH. Thank you very much, Mr. Hedges.

Senator BUSH. The next witness will be Mr. Charles Muss.

Do you solemnly swear that the testimony which you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF CHARLES MUSS, NORTHRIDGE COOPERATIVE
PROJECT, NEW YORK, N. Y.**

Mr. MUSS. I do.

Senator BUSH. Will you give your name and address for the clerk?

Mr. MUSS. Charles J. Muss, 29-48 171st Street, Flushing, N. Y.

Senator BUSH. Mr. Simon.

Mr. SIMON. What is your occupation, Mr. Muss?

Mr. MUSS. Builder.

Mr. SIMON. Are you a brother of David Muss who has built some of these FHA projects?

Mr. MUSS. Yes, sir.

Mr. SIMON. And I believe you are also a brother of Alexander Muss who has also built a great number of FHA projects, is that right?

Mr. MUSS. That is right.

Mr. SIMON. Referring to the Northridge Cooperative project, are you familiar with that?

Mr. MUSS. Yes, sir.

Mr. SIMON. Who owns the land on which that project was built?

Mr. MUSS. To the best of my recollection it would be N. K. Winston, David Muss, and, I think it is a corporation.

Mr. SIMON. That is Norman K. Winston?

Mr. MUSS. Yes.

Mr. SIMON. And your brother, David Muss?

Mr. MUSS. Yes.

Mr. SIMON. And the Mikastiftung Corp.?

Mr. MUSS. That is right.

Mr. SIMON. That is a Swiss corporation?

Mr. MUSS. I understand so.

Mr. SIMON. Do you know who its stockholders are?

Mr. MUSS. No, sir.

Mr. SIMON. But they are citizens of Switzerland?

Mr. MUSS. I imagine so. I wouldn't know.

Mr. SIMON. Who created or incorporated the cooperative housing corporation?

Mr. MUSS. To the best of my knowledge it was organized by N. K. Winston, David Muss, and this Swiss corporation.

Mr. SIMON. There were three cooperative corporations, weren't there?

Mr. MUSS. Yes, sir.

Mr. SIMON. And then there were three building corporations incorporated?

Mr. MUSS. Yes, sir.

Mr. SIMON. And who incorporated those building corporations?

Mr. MUSS. They were our corporations. The building corporations were ours.

Mr. SIMON. After the corporations had been incorporated, a building contract was entered into between the cooperative corporations and the building corporations, is that right?

Mr. MUSS. Yes, sir.

Mr. SIMON. And that contract was to build these buildings for a fixed sum of money; is that right?

Mr. MUSS. Yes, sir.

Mr. SIMON. That turned out to be \$10,934,023?

Mr. MUSS. That is correct, sir.

Mr. SIMON. Now I take it on the one hand you participated in negotiations on behalf of the building corporation; is that right?

Mr. MUSS. Yes, sir.

Mr. SIMON. And on the other hand your brother participated in the negotiations on behalf of the cooperative?

Mr. MUSS. On account of who, the cooperatives?

Mr. SIMON. Yes.

Mr. MUSS. Well, they were with the cooperatives.

Mr. SIMON. And your brother and Winston and Makastiftung were the negotiators on the other side, is that right?

Mr. MUSS. Yes, sir. Well, there were the cooperators who organized the cooperative, too.

Mr. SIMON. Who were they?

Mr. MUSS. I don't remember the names, but there were five that were necessary to start.

Mr. SIMON. They were the nominees of your brother and Winston; weren't they?

Mr. MUSS. I believe so; yes, sir. I wasn't in that.

Mr. SIMON. So that when this price of \$10,934,023 was arrived at, it was negotiated by you and your associates on one hand and your brother and Norman Winston on the other hand; is that right?

Mr. MUSS. I just want to bring this out, that it was a negotiation where we had bought the contracts. They originally had the contracts, and we bought the contracts from N. K. Winston, David Muss and this corporation.

Mr. SIMON. Who fixed this price for building the building?

Mr. MUSS. To the best of my recollection that was fixed with the FHA.

Mr. SIMON. Didn't the sponsors have anything to say about it, or the building company? I would take it that no building contractor has to build a building at any figure he does not agree to.

Mr. MUSS. He must have known that the figure was going to be that and we figured out whether it was worthwhile for us to do the job.

Mr. SIMON. Did FHA tell you how much the job had to be built for?

Mr. MUSS. We had nothing to do with FHA.

Mr. SIMON. Who fixed this as the contract price?

Mr. MUSS. That must have been set up before we came into the picture. That is the only way I know.

Mr. SIMON. Do you know who fixed it?

Mr. MUSS. It might have been done by the people before us.

Senator BUSH. Weren't you the contractor?

Mr. MUSS. We were the general contractors, yes.

Senator BUSH. You as the contractors agreed to build that building for \$10,934,000?

Mr. MUSS. Yes, that is correct, \$10,934,000.

Senator BUSH. That is what you were to get?

Mr. MUSS. Right, and which was paid to us.

Senator BUSH. Then you must have known whether that was the price you could make money on.

Mr. MUSS. Oh, yes. We figured to make money.

Senator BUSH. That is what we are trying to find out.

Mr. MUSS. Oh, yes.

Mr. SIMON. Now, Mr. Muss, when you took over this construction contract, had the first shovel of dirt been turned?

Mr. MUSS. To the best of my recollection I think when they started the selling campaign they might have had a shovel to dig the dirt. That is about all.

Senator BUSH. A ground-breaking ceremony?

Mr. MUSS. You know, in my estimation that is a publicity stunt that has nothing to do with construction.

Mr. SIMON. Excluding publicity, did you and your company do all of the construction work?

Mr. MUSS. Yes.

Mr. SIMON. Nobody else did the construction work except your company?

Mr. MUSS. None whatsoever.

Mr. SIMON. Your brother and Norman Winston and Makastiftung did only the promotional work, is that right?

Mr. MUSS. I don't know if you would call it promotional. I say the setting up of it and the selling of the apartments they did.

Mr. SIMON. The setting up of the corporation——

Mr. MUSS. Also they had to be the guarantors on this latent defect and all that goes along with it.

Mr. SIMON. When you had finished the building, you had a profit of something over \$1,125,000, is that right?

Mr. MUSS. We didn't have that profit.

Mr. SIMON. Your building corporation did.

Mr. MUSS. No, no.

Mr. SIMON. Let me ask you this way: Your contract price was \$10,934,000, is that right?

Mr. MUSS. Correct.

Mr. SIMON. Was that \$10,934,000 paid to your company?

Mr. MUSS. Yes, sir.

Mr. SIMON. What was your cost?

Mr. MUSS. The cost? Would you figure the cost less what we paid to David Muss?

Mr. SIMON. I am figuring your cost of construction. Was it \$9,809,750?

Mr. MUSS. I am trying to figure this out. I am not trying to hold anything back. If you want to figure what we paid to them——

Mr. SIMON. I want to know what the cost of construction was. Is \$9,800,000 wrong?

Mr. MUSS. It would be approximately right.

Mr. SIMON. And that was about \$1,125,000 less than the contract price, wasn't it?

Mr. MUSS. That would be correct.

Mr. SIMON. What happened to that \$1,125,000?

Mr. MUSS. We paid to N. K. Winston, David Muss, and the company a total of \$843,000. Whether they paid any expenses out of that I wouldn't know. That is what we paid them. And \$338,000 was the estimated gross profit of the 3 companies that did the construction.

Mr. SIMON. Your three companies?

Mr. MUSS. Correct.

Mr. SIMON. I would say, roughly, that the amount you kept was 30 percent, and the amount you gave the promoters was 70 percent; is that right?

Mr. MUSS. I would say that is about the way it worked out.

Mr. SIMON. In your opinion, is the job of building the building from the second shovelful of earth to the completion only entitled to 30 percent of the profit, and is the promoting of the job entitled to 70 percent of the profit?

Mr. MUSS. As I said before, we were willing to make a reasonable profit. We had figured to make a little bit more, but because of costs going up and some strikes, we came out with that amount. We figured to maybe make a little more, but it didn't work out that way. Whatever they made on any job, we never asked the people what they are going to make. The most important thing, we are looking to see if we can make anything.

Mr. SIMON. How was the division of this profit determined?

Mr. MUSS. They told us what they wanted and we thought it was reasonable enough.

Mr. SIMON. Mr. Muss, you would give the impression by that answer that their share of the profit was determined in advance. Isn't it the fact that your contract provided that after the job was completed they would get a certain percent and you would get a certain percent?

Mr. MUSS. I don't know exactly.

Mr. SIMON. Do you have a copy of your contract with you?

Mr. MUSS. No, sir.

Mr. SIMON. We asked you for it about a month ago.

Mr. MUSS. We asked if you wanted a copy and you didn't say anything. Otherwise, I would have it.

Mr. SIMON. I think you would find, if you would examine the transcript, that we asked for it and you said you would supply it for us. Do you have a copy with you?

Mr. MUSS. No, I have the transcript. I mean it was brought up at that time.

Mr. SIMON. Yes, it was. Didn't you say then that you thought that this was arranged on a percentage deal, that they were to get a certain percent and you were to get a certain percent?

Mr. MUSS. I wasn't sure at that time. The way I feel now, we had a contract with a certain amount that they were going to get and whatever was left would be ours. There was a greater amount at that time in the contract, and it was readjusted because of conditions and other things happened.

Mr. SIMON. I would like to know on what basis it was determined that they were going to get paid out of this job?

Mr. MUSS. They were going to get paid as we went along.

Mr. SIMON. Were they to get a percentage of the remaining profits?

Mr. MUSS. They were going to get the money as we constructed the job.

Mr. SIMON. If the project had resulted in a loss, would you still have had to give this \$843,000 to the promoters?

Mr. MUSS. I am not sure.

Mr. SIMON. What did Norman Winston, David Muss, and the Makastiftung do for their \$843,000?

Mr. MUSS. They had the job. They set it up.

Mr. SIMON. What did they do?

Mr. MUSS. They sold the job. They arranged to set it up.

Mr. SIMON. You mean they created a cooperative corporation?

Mr. MUSS. Yes.

Mr. SIMON. You hire a lawyer and he does that in a day or two.

Mr. MUSS. I don't know how long it takes.

Mr. SIMON. What else did they do for their \$843,000?

Mr. MUSS. They have done their part. They had to be guarantors of the project and they figured that that is what they were entitled to.

Mr. SIMON. You built this \$10 million project?

Mr. MUSS. Right.

Mr. SIMON. And you made a profit of \$338,000, which would seem to be a fair profit.

Mr. MUSS. Yes, sir.

Mr. SIMON. Now I want to know what your brother and Norman Winston and the Swiss people did to earn \$843,000?

Mr. MUSS. They had the job. I wouldn't have anything to say as to what they should make.

Mr. SIMON. What did they do for that money?

Mr. MUSS. They set up the job. They figured they were very busy and didn't want to do the general contracting on it and they asked us.

Mr. SIMON. The big profit in these jobs is not in building the building, but in putting the corporation together and getting the FHA approval, is that right?

Mr. MUSS. We never went through that. We have not sold any jobs so I wouldn't know.

Mr. SIMON. Isn't what you are saying, that setting the job up, as you call it, and getting the FHA approval is the thing that earns the big profit?

Mr. MUSS. It all depends on how the job works out. It all depends on how much the fellow who has set it up wants to make on the job or how it is going to work out.

Mr. SIMON. Does the profit depend solely on how much the man wants to make?

Mr. MUSS. Usually it does. In other words, if I wanted to buy a piece of property, if the fellow wanted to make \$1 million or \$1,000, and if we thought it was worthwhile we wouldn't care how much he made.

Mr. SIMON. In other words, if I wanted to promote one of these cooperatives tomorrow morning, all I have to do is make up my mind how much I want to make?

Mr. MUSS. Then it is up to the other fellow whether he will do it or not.

Mr. SIMON. I still don't understand how you were satisfied with the \$338,000 profit on this building for building the whole building and how these people got a \$843,000 profit for just creating the corporation.

Mr. MUSS. I understand the \$843,000 was not a complete profit. They had to conduct selling campaigns and they had expenses.

Mr. SIMON. What were they?

Mr. MUSS. I have no knowledge of that.

Mr. SIMON. You don't know that they were not very substantial?

Mr. MUSS. I wouldn't know.

Mr. SIMON. Do you know what the Swiss people did for their share of the profit?

Mr. MUSS. I wouldn't know. It is the same combination. I suppose each one did the same thing.

Mr. SIMON. They got over \$300,000 of that money, didn't they?

Mr. MUSS. They must have; yes. I don't know how many shares they had.

Mr. SIMON. Didn't you tell us that the Swiss people got over \$300,000?

Mr. MUSS. No; I didn't say the Swiss people got over \$300,000.

Mr. SIMON. Didn't you write us a letter saying that Makastiftung received \$332,593?

Mr. MUSS. I don't remember. I think the only correction we had in there amounted to \$786,000, and we came to where it came to \$843,000. You might have had the three names in there that we had paid them. I don't think we distributed the amounts of money that was paid to each one.

Mr. SIMON. My information is your letter did. The letter arrived in Washington this morning. You sent a letter to Washington and they telephoned us giving us these figures in which they tell us you said in this letter—did you sign the letter?

Mr. MUSS. Yes; it is the best of my recollection that instead of \$230,000 was paid \$234,000, and instead of \$259,000 it was \$279,000, and instead of \$296,000, it was \$330,000. That was the corporations that paid to these three people.

Mr. SIMON. How much did Makastiftung get?

Mr. MUSS. I wouldn't know.

Mr. SIMON. Do you know what share they had?

Mr. MUSS. Offhand, I wouldn't know.

Mr. SIMON. Did they do anything to promote this project?

Mr. MUSS. When we came into the picture, we came into the picture when the apartments were already sold and construction was ready to go ahead.

Mr. SIMON. What investment did any of these people have?

Mr. MUSS. That I wouldn't know. I understand that they had about \$200,000.

Mr. SIMON. Invested?

Mr. MUSS. Yes.

Mr. SIMON. What was that for?

Mr. MUSS. The way I figure is the selling and the advertising. I wouldn't know, to tell you the truth. I am not familiar with their business at all.

Mr. SIMON. Are you including in that \$200,000 the investment they had in the land?

Mr. MUSS. I don't think so.

Mr. SIMON. They still own the land, don't they?

Mr. MUSS. Yes, sir.

Mr. SIMON. At any rate, for promoting this corporation and then getting you to build it, these people got \$843,000 or 70 percent of the profit; is that right?

Mr. MUSS. If you figure it that way it would work out to that.

Mr. SIMON. One of the principal stockholders was a Swiss corporation?

Mr. MUSS. Yes, sir.

Mr. SIMON. In addition to this Northridge cooperative, you had four other section 608's; is that right?

Mr. MUSS. Correct, sir.

Mr. SIMON. Without going into details of all of them, the total mortgages were \$71½ million, roughly speaking?

Mr. MUSS. Roughly speaking; yes, sir.

Mr. SIMON. And if you combine the 4 of them, the cost of construction of the 4 was less than the total mortgages?

Mr. MUSS. Yes.

Mr. SIMON. That is all.

Senator BUSH. Mr. Kenney.

Mr. KENNEY. No questions.

Senator BUSH. Thank you very much, Mr. Muss. We have no further questions.

For the information of the press I might say that Mr. Punia will be the last witness today. Tomorrow morning the committee will resume at 10 o'clock, and at that time we have listed the following witnesses: Mr. David Kent, who was supposed to be here today; Morty Wolosoff, of Alleypond Park, Bayside; Alfred Wohl, of Kew Terrace, Flushing; Jerome Brett, of the Permastica Corp., New York; and then Louis Garthson, who is going to testify in connection with the home-improvement program, and also two homeowners who will testify concerning title I matters—Raymond Hobson, of St. Albans, and Mrs. John Blysdadt.

Senator BUSH. Mr. Punia, will you raise your right hand, please? Do you solemnly swear that the testimony which you will give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF CHARLES PUNIA, BLOSSOM GARDENS, NEW YORK, N. Y., ETC., ACCOMPANIED BY CHARLES WILSON, COUNSEL

Mr. PUNIA. I do.

Senator BUSH. Will you give your correct name and address to the clerk?

Mr. PUNIA. Charles Punia, 402 Hampton Avenue, Brooklyn.

Senator BUSH. What is your business connection?

Mr. PUNIA. Real estate.

Senator BUSH. The name of the firm?

Mr. PUNIA. Punia & Marx.

Mr. SIMON. Mr. Punia, how many section 608 projects are you interested in?

Mr. WILSON. I am his attorney. Could you please have that light turned off? It hits me right in the eye.

Senator BUSH. Does the witness object to the light?

Mr. PUNIA. It is a little glaring, but I am trying to face toward the wall so it does not affect me.

Mr. SIMON. Counsel, would you give your name to the reporter, please?

Mr. WILSON. Charles Wilson, 16 Court Street, Brooklyn.

Mr. SIMON. How many section 608 projects are you interested in?

Mr. PUNIA. About 25, approximately that.

Mr. SIMON. Do the mortgages total close to \$40 million?

Mr. PUNIA. Approximately; yes.

Mr. SIMON. And in the projects as a whole were the total costs about \$3½ million less than the mortgages?

Mr. PUNIA. May I look at these records?

Mr. SIMON. Yes. I should say \$3½ million less than the proceeds of the mortgages.

Mr. PUNIA. Mr. Simon, if those are the figures we sent you, they are correct.

Mr. SIMON. I might say for your checking, that I have included in the proceeds of the mortgages the face amounts of the mortgages, plus the premiums that the lenders paid on the mortgages.

Mr. PUNIA. I wouldn't at this minute be prepared to answer that unless you gave me an opportunity——

Mr. SIMON. We will go through it case by case.

Mr. WILSON. Mr. Simon, was the question whether or not the mortgage proceeds exceeded the cost of the building by \$3½ million? That would not be correct.

Mr. SIMON. Would you want to be sworn?

Mr. WILSON. No; we gave you figures that are listed here.

Mr. SIMON. I would be glad to have Mr. Punia tell me unless you know more about it.

Mr. WILSON. All I have are the figures prepared by the accountant which was furnished to you some time ago.

Mr. SIMON. We will be glad to have Mr. Punia tell us what the facts are.

Mr. PUNIA. The only way I can give you that accurately is to go through it case by case.

When we were served with the subpoena I asked the gentleman who served me whether I should bring any records along and he said "No." This was merely of our own initiative that we took these records. If I hadn't taken them along we wouldn't be in a position to answer now.

Mr. SIMON. What did you think we asked you to come down here for, Mr. Punia?

Mr. PUNIA. I knew we had sent you the information that you wanted. My question to you is if that is the information we sent you, that is correct if you have computed it.

Mr. SIMON. We will go through it case by case and see where we add up.

Mr. PUNIA. O. K.

Mr. SIMON. Let me ask you these preliminary questions, without deciding for the moment whether the proceeds of the mortgages were \$3½ million in excess of the costs. They certainly were substantially in excess of the costs, weren't they?

Mr. PUNIA. Yes.

Mr. SIMON. After these 25 buildings had been built you had no investment in them and by "you" I mean you and your associates?

Mr. PUNIA. True.

Mr. SIMON. You owned the building and you had a substantial amount of money in cash that had been returned to you; is that right?

Mr. PUNIA. Correct.

Mr. SIMON. And you still own the 25 buildings and there is no personal responsibility on any of you to ever pay the mortgages; is that right?

Mr. PUNIA. Fundamentally, that is correct.

Mr. SIMON. Why do you add "fundamentally"?

Mr. PUNIA. We may have sold 1 or 2 of these buildings.

Mr. SIMON. But there is no personal obligation on you to pay any of these mortgages?

Mr. PUNIA. None whatsoever.

Mr. SIMON. If any 1 of the 25 buildings goes sour and the income is not sufficient to meet the mortgage payments, you can just stop paying it; the Government has to take that 1 back and you still own the other 24?

Mr. PUNIA. That is correct.

Mr. SIMON. And that could happen to each one of them and you can keep the profitable ones and let the Government take back the unprofitable ones?

Mr. PUNIA. That is correct.

Mr. SIMON. Going first to Barnes Gardens, are you familiar with that project?

Mr. PUNIA. Yes.

Mr. SIMON. What was the amount of the mortgage there?

Mr. PUNIA. \$835,100.

Mr. SIMON. What was the premium that you received on the mortgage?

Mr. PUNIA. \$14,614. I am dropping the pennies on this.

Mr. SIMON. That is good enough. What was the cost of construction?

Mr. PUNIA. \$877,814. I am sorry, \$918,639.

Mr. SIMON. Secondly, Blossom Gardens. What was the amount of the mortgage there?

Mr. PUNIA. \$1,628,600.

Mr. SIMON. What was the premium?

Mr. PUNIA. \$22,365.

Mr. SIMON. What was that again?

Mr. PUNIA. \$22,365.

Mr. SIMON. What was the cost of construction?

Mr. PUNIA. \$1,529,917.

Mr. SIMON. In each of those cases does the sponsoring corporation own the land?

Mr. PUNIA. Yes—

Mr. SIMON. In both of those cases the buildings are built on leaseholds?

Mr. PUNIA. That is correct.

Mr. SIMON. In the Barnes Garden the land cost you how much?

Mr. PUNIA. \$46,216.

Mr. SIMON. And you put a mortgage on it for how much?

Mr. PUNIA. \$44,100.

Mr. SIMON. And that is in addition to the FHA mortgage?

Mr. PUNIA. That is correct.

Mr. SIMON. And the FHA mortgage does not cover the land?

Mr. PUNIA. That is correct.

Mr. SIMON. Blossom Gardens, the last, cost you how much?

Mr. PUNIA. \$74,859.

Mr. SIMON. And you put a mortgage on it for how much?

Mr. PUNIA. I think \$75,600, it looks like. It might be \$75,000 even or \$75,600; I can't tell from this.

Mr. SIMON. My information is \$75,600, so maybe that is the right one.

The next project is Continental Gardens. What was the mortgage there?

Mr. PUNIA. \$1,714,400.

Mr. SIMON. What was the premium?

Mr. PUNIA. \$25,716.

Mr. SIMON. Is the land included in the corporation?

Mr. PUNIA. No, sir; it is a leasehold.

Mr. SIMON. What is the cost of the land?

Mr. PUNIA. \$103,280.

Mr. SIMON. What was the mortgage on the land?

Mr. PUNIA. \$99,000.

Mr. SIMON. What was the cost of construction of the building?

Mr. PUNIA. \$1,530,096.

Mr. SIMON. Next, Dahill Gardens. What was the amount of the mortgage?

Mr. PUNIA. \$730,700.

Mr. SIMON. What was the premium?

Mr. PUNIA. \$18,267.

Mr. SIMON. What was the cost of construction?

Mr. PUNIA. \$669,444.

Mr. SIMON. I believe in that one the land is owned by the corporation?

Mr. PUNIA. That is correct. That mortgage covers the fee.

Mr. SIMON. The next one is Edmark Apartments. What was the mortgage there?

Mr. PUNIA. \$520,000.

Mr. SIMON. \$520,000?

Mr. PUNIA. Correct.

Mr. SIMON. What was the premium?

Mr. PUNIA. \$9,100.

Mr. SIMON. What was the cost of construction?

Mr. PUNIA. \$487,684.

Mr. SIMON. What was the cost of the land?

Mr. PUNIA. \$42,842.

Mr. SIMON. The land is not in a section 608 corporation, is it?

Mr. PUNIA. No.

Mr. SIMON. What was the mortgage on the land?

Mr. PUNIA. \$45,000.

Mr. SIMON. That is in addition to the section 608 mortgage, is it?

Mr. PUNIA. Correct.

Mr. SIMON. The next one is Greystone Gardens. What was the amount of the mortgage?

Mr. PUNIA. \$1,106,500.

Mr. SIMON. What was the premium?

Mr. PUNIA. \$15,597.

Mr. SIMON. \$15,000?

Mr. PUNIA. That is correct.

Mr. SIMON. \$15,597?

Mr. PUNIA. Correct.

Mr. SIMON. What was the cost of the land?

Mr. PUNIA. \$78,828.

Mr. SIMON. The land is not in the section 608 corporation?

Mr. PUNIA. No, sir.

Mr. SIMON. What was the cost of construction?

Mr. PUNIA. \$1,259,575.

Mr. SIMON. The next is Hutton Lafayette Gardens?

Mr. PUNIA. Yes, sir.

Mr. SIMON. What was the mortgage?

Mr. PUNIA. \$1,994,000.

Mr. SIMON. Premium?

Mr. PUNIA. \$69,790.

Mr. SIMON. The land I believe there is owned by the section 608 corporation?

Mr. PUNIA. That is correct.

Mr. SIMON. What was the cost of the building, cost of construction?

Mr. PUNIA. \$2,118,565.

Mr. SIMON. The next one is Larchmont Properties. What was the amount of the mortgage?

Mr. PUNIA. \$2,238,000.

Mr. SIMON. The premium?

Mr. PUNIA. \$57,900.

Mr. SIMON. I believe the land is owned by the section 608 corporation there?

Mr. PUNIA. That is correct.

Mr. SIMON. And the cost of construction?

Mr. PUNIA. \$2,446,240.

Mr. SIMON. Just to make sure that the record is clear, Mr. Punia, wherever the land is owned by the corporation that has the section 608 mortgage, the costs you are giving me include the cost of the land?

Mr. PUNIA. That is correct.

Mr. SIMON. And the figure you are giving me for construction costs also includes mortgage expense and interest during construction and real-estate taxes, so that it is your total cost, not merely the construction cost?

Mr. PUNIA. That is right. There is one thing I would like to add to this. In addition, Punia & Marx received a commission of \$19,300 on this job.

Mr. SIMON. On Larchmont?

Mr. PUNIA. That is correct. It had nothing to do with the corporation. Punia & Marx got that.

Mr. SIMON. These premiums in part and not in whole resulted from the fact that they were Government guaranteed mortgages; isn't that correct?

Mr. PUNIA. I think to a great degree the condition of the mortgage market had something to do with it. We were getting premiums from conventional loans, though not so great, but premiums were being paid for conventional loans.

Mr. SIMON. You have included in your items, of course, all your FHA fees, including your FHA insurance charges; is that right?

Mr. PUNIA. That is right; during construction.

Mr. SIMON. The next one is Monticello Gardens, the amount of the mortgage?

Mr. PUNIA. \$1,441,000.

Mr. SIMON. Premium?

Mr. PUNIA. \$21,615.

Mr. SIMON. The cost?

Mr. PUNIA. \$1,195,586.

Mr. SIMON. In that one I believe the land is not in the corporation?

Mr. PUNIA. No, sir.

Mr. SIMON. The land cost?

Mr. PUNIA. \$98,291.

Mr. SIMON. The mortgage?

Mr. PUNIA. \$112,500.

Mr. SIMON. The next one is Quality Gardens.

Mr. PUNIA. Yes, sir.

Mr. SIMON. The mortgage is how much?

Mr. PUNIA. \$2,358,500.

Mr. SIMON. Premium?

Mr. PUNIA. \$29,370.

Mr. SIMON. Cost?

Mr. PUNIA. \$2,248,896.

Mr. SIMON. The land is not in the section 608 corporation?

Mr. PUNIA. No, sir.

Mr. SIMON. The land cost?

Mr. PUNIA. \$193,455.

Mr. SIMON. The mortgage on the land?

Mr. PUNIA. \$207,000.

Mr. SIMON. The next one is Queens College Gardens. The mortgage is?

Mr. PUNIA. \$3,348,600.

Mr. SIMON. The premium?

Mr. PUNIA. Oh, no; we didn't get any premium on Queens College. That mortgage went at par.

Mr. SIMON. The cost?

Mr. PUNIA. \$3,141,184.

Mr. SIMON. The land is not in the section 608 corporation?

Mr. PUNIA. No, sir.

Mr. SIMON. The cost of the land?

Mr. PUNIA. \$289,064.

Mr. SIMON. The mortgage on the land?

Mr. PUNIA. \$401,400.

Mr. SIMON. The next one is Harvard Gardens, and the amount of the mortgage?

Mr. PUNIA. \$1,461,400.

Mr. SIMON. Premium?

Mr. PUNIA. \$21,921.

Mr. SIMON. The cost?

Mr. PUNIA. \$1,230,302.

Mr. SIMON. The land is not in the section 608 corporation?

Mr. PUNIA. No, sir.

Mr. SIMON. The cost of the land?

Mr. PUNIA. \$66,699.

Mr. SIMON. The mortgage on the land?

- Mr. PUNIA. \$108,000.
- Mr. SIMON. The next one is Ruskin Gardens.
- Mr. PUNIA. Yes.
- Mr. SIMON. The mortgage?
- Mr. PUNIA. \$2,098,200.
- Mr. SIMON. Premium?
- Mr. PUNIA. \$26,095.
- Mr. SIMON. The cost?
- Mr. PUNIA. \$2,051,990.
- Mr. SIMON. The land is not in the section 608 corporation?
- Mr. PUNIA. No, sir.
- Mr. SIMON. The cost of the land?
- Mr. PUNIA. \$158,303.
- Mr. SIMON. The mortgage?
- Mr. PUNIA. \$175,500.
- Mr. SIMON. Narrows Gardens, the amount of the mortgage?
- Mr. PUNIA. \$589,000.
- Mr. SIMON. The premium?
- Mr. PUNIA. \$35,340.
- Mr. SIMON. Cost?
- Mr. PUNIA. \$545,456.
- Mr. SIMON. The land is not in the section 608 corporation?
- Mr. PUNIA. No, sir.
- Mr. SIMON. Cost of the land?
- Mr. PUNIA. \$34,412.
- Mr. SIMON. Mortgage?
- Mr. PUNIA. \$45,000.
- Mr. SIMON. The next one is Thermond Gardens, the amount of the mortgage?
- Mr. PUNIA. \$1,465,000.
- Mr. SIMON. Premium?
- Mr. PUNIA. \$21,982.
- Mr. SIMON. The cost?
- Mr. PUNIA. \$1,299,727.
- Mr. SIMON. The land is not in the section 608 corporation?
- Mr. PUNIA. No, sir.
- Mr. SIMON. Cost of the land?
- Mr. PUNIA. \$66,119.
- Mr. SIMON. The mortgage on the land?
- Mr. PUNIA. \$90,000.
- Mr. SIMON. The next is Verona Gardens, the amount of the mortgage?
- Mr. PUNIA. \$1,573,100.
- Mr. SIMON. Premium?
- Mr. PUNIA. \$23,537.
- Mr. SIMON. Cost?
- Mr. PUNIA. \$1,364,774.
- Mr. SIMON. The land is not in the section 608 corporation?
- Mr. PUNIA. No, sir.
- Mr. SIMON. The cost?
- Mr. PUNIA. \$66,119.
- Mr. SIMON. The mortgage?
- Mr. PUNIA. \$94,500.

Mr. SIMON. Next is Clinton Gardens.

Mr. PUNIA. The mortgage is \$1,863,100.

Mr. SIMON. Premium?

Mr. PUNIA. \$65,208.

Mr. SIMON. The cost?

Mr. PUNIA. \$1,946,068.

Mr. SIMON. I believe the land is in the section 608 corporation here?

Mr. PUNIA. That is correct.

Mr. SIMON. If we pause for a minute, those mortgages total \$26,996,700; is that right?

Mr. PUNIA. May I make this statement? All these figures that I have given you today were figures prepared by our accountants from our books. I see now that there is a little difference between your calculations and theirs.

Mr. SIMON. I am just reading from what you gave me, roughly \$27 million?

Mr. PUNIA. That is correct.

Mr. SIMON. Now, on that group of properties, the costs, as you computed them, including land where the land is in, and including mortgage expense and interest and taxes and everything else, the amount of the mortgage was \$980,000 more than all the costs.

Mr. PUNIA. That is correct.

Mr. SIMON. And in many cases that even includes the builder's fee to a builder connected with the group; is that right?

Mr. PUNIA. A nominal fee, and not in many cases, a few.

Mr. SIMON. Including all of those factors, the amount of the mortgage was \$980,000 more than the cost?

Mr. PUNIA. That is correct.

Mr. SIMON. On the land, the land in those properties cost you \$1,318,492; is that right?

Mr. PUNIA. I will assume your figures to be correct.

Mr. SIMON. And the mortgages were \$1,566,000; is that correct?

Mr. PUNIA. I will assume that to be correct.

Mr. SIMON. So that the mortgages on the land exceeded the cost of the land by \$248,000?

Mr. PUNIA. I will assume that to be correct.

Mr. SIMON. And you still own the land, of course, subject to those mortgages?

Mr. PUNIA. Correct.

Mr. SIMON. And there is no personal liability to repay those mortgages?

Mr. PUNIA. No; no, sir.

Mr. SIMON. Now, the premiums on this group of mortgages are \$485,019; is that correct?

Mr. PUNIA. I will assume that is correct. I don't have a total on that.

Mr. SIMON. Putting these properties in a package, the proceeds of the mortgage—that is, the face amount of the mortgage—plus the premiums you received, including the mortgages on the buildings, as well as the mortgages on the fees, were \$1,713,000 more than all the cost of the buildings and the land?

Mr. PUNIA. I will assume those figures are correct.

Mr. SIMON. In addition, you have another group of 12 projects you are interested in, I believe; is that right? Aren't there 12 projects that you are interested in with Mr. Orlian?

Mr. PUNIA. There aren't 12.

Mr. SIMON. How many are there, then? Will you tell me how many there are?

Mr. PUNIA. Seven, Mr. Simon.

Mr. SIMON. Can you give us the mortgage income and costs on those?

Mr. PUNIA. Yes, sir.

Mr. SIMON. I take it from that Mr. Orlian was involved in five projects that you weren't in; is that right?

Mr. PUNIA. To the best of my knowledge, in two.

Mr. SIMON. We have 12. Will you give me the projects in which you are interested with Mr. Orlian?

Mr. PUNIA. Do you have it in this order, too?

Mr. SIMON. Sun Dawn; is that the first one?

Mr. PUNIA. Yes. Sun Dawn Gardens.

Mr. SIMON. What was the amount of the mortgage there?

Mr. PUNIA. \$1,496,600.

Mr. SIMON. Premium?

Mr. PUNIA. \$59,864.

Mr. SIMON. The construction cost?

Mr. PUNIA. \$1,396,782.

Mr. SIMON. Is the land included in the corporation?

Mr. PUNIA. Yes, sir.

Mr. SIMON. Next one—I might add that that one includes a \$10,000 builder's fee and \$13,000 of salaries to the sponsors; is that right?

Mr. PUNIA. I remember the \$10,000 builder's fee, but let me see about the other.

Mr. WILSON. I am not sure, but those salaries were supplied by request of the accountant. I don't think those salaries are included in the cost.

Mr. PUNIA. I don't think the \$10,000 builder's fee is included.

Mr. SIMON. I can't help you with that. These are your projects. This is wrong as to the salaries, but right as to the builder's fee; is that what you are saying?

Mr. WILSON. The salaries were paid, but not as part of the costs.

Mr. SIMON. Is that your testimony?

Mr. PUNIA. To the best of my knowledge.

Mr. SIMON. You just don't know?

Mr. PUNIA. I was under the impression that neither of these items were thrown in against the cost, but Mr. Wilson is more familiar with these figures than I am, and if he says so, I will go along on it.

Mr. WILSON. That is my understanding.

Mr. SIMON. Excluding both of them, the mortgage was \$99,817 more than the cost, and you got a \$59,000 premium; is that right?

Mr. PUNIA. That is correct.

Mr. SIMON. What is the next one?

Mr. PUNIA. Woodcliff No. 1.

Mr. SIMON. What was the mortgage there?

Mr. PUNIA. \$2,046,000.

Mr. SIMON. The premium?

- Mr. PUNIA. \$81,840.
- Mr. SIMON. The construction cost?
- Mr. PUNIA. \$1,994,388.
- Mr. SIMON. And the land is included in the project?
- Mr. PUNIA. That is correct, sir.
- Mr. SIMON. And here you have an \$18,000 builder's fee. Is that in or out?
- Mr. PUNIA. That is in, I think. That I believe to be in.
- Mr. SIMON. At any rate, after paying the builder's fee the mortgage exceeded the cost by \$51,600, and you had a premium of \$81,800?
- Mr. PUNIA. Correct, sir.
- Mr. SIMON. What is the next one?
- Mr. PUNIA. Woodcliff Hills.
- Mr. SIMON. What was the mortgage there?
- Mr. PUNIA. \$1,332,000.
- Mr. SIMON. What was the premium?
- Mr. PUNIA. \$53,280..
- Mr. SIMON. What was the cost?
- Mr. PUNIA. \$1,326,230.
- Mr. SIMON. The land is in the corporation there?
- Mr. PUNIA. That is correct, sir.
- Mr. SIMON. And there you had a builder's fee of \$12,000. Was that included in your cost?
- Mr. PUNIA. I believe it is, sir.
- Mr. SIMON. And after allowing for that builder's fee, the mortgage still exceeded the cost by \$5,700, and you had a builder's fee and a premium of \$53,200; is that right?
- Mr. PUNIA. That is correct, sir.
- Mr. SIMON. What is the next one?
- Mr. PUNIA. Oliver Gardens.
- Mr. SIMON. What is the amount of the mortgage there?
- Mr. PUNIA. \$2,001,500.
- Mr. SIMON. Premium?
- Mr. PUNIA. \$80,060.
- Mr. SIMON. Cost?
- Mr. PUNIA. \$1,785,291.
- Mr. SIMON. And that is a leasehold?
- Mr. PUNIA. That is correct, sir.
- Mr. SIMON. What is the cost of the land?
- Mr. PUNIA. \$187,486.
- Mr. SIMON. Mortgage?
- Mr. PUNIA. \$243,000.
- Mr. SIMON. On that one the mortgage on the land exceeded the cost of the land by \$56,000; is that right?
- Mr. PUNIA. That is correct, sir.
- Mr. SIMON. The premium was \$80,000; is that correct?
- Mr. PUNIA. That is correct.
- Mr. SIMON. And the cost of construction was \$216,000 less than the mortgage?
- Mr. PUNIA. That is correct; yes.
- Mr. SIMON. What is the last one?
- Mr. PUNIA. Aero.
- Mr. SIMON. What was the mortgage there?

Mr. PUNIA. \$2,467,300.

Mr. SIMON. Premium?

Mr. PUNIA. \$98,692.

Mr. SIMON. Cost?

Mr. PUNIA. \$2,195,327.

Mr. SIMON. And that was a leasehold?

Mr. PUNIA. Correct.

Mr. SIMON. The land cost?

Mr. PUNIA. \$130,341.

Mr. SIMON. And the mortgage?

Mr. PUNIA. \$138,600.

Mr. SIMON. In that building the mortgage on the land was \$8,000 more than the cost?

Mr. PUNIA. That is correct, sir.

Mr. SIMON. The premium was \$98,600?

Mr. PUNIA. That is correct.

Mr. SIMON. And the cost of construction was \$272,000 less than the mortgage?

Mr. PUNIA. That is correct, sir.

Mr. SIMON. In those 5 projects the proceeds of the mortgages on the fee and the land, and the land and the buildings exceeded the total cost of the land and the buildings by \$1,081,000?

Mr. PUNIA. I will assume that is correct, if you tell it to me.

Mr. SIMON. And on the 18 projects we had earlier, the difference was \$1,713,000; is that right?

Mr. PUNIA. Yes.

Mr. SIMON. On the 25 projects as a whole, the total cost of the land, the buildings, the mortgage expense, interest during construction, the taxes and these builders' fees to the extent they were included in the total costs were \$2,800,000 less than the proceeds of the total mortgages; is that right?

Mr. PUNIA. If that is what the total is, that is what it is, sir.

Mr. SIMON. So that after building these 25 buildings, you and your associates had \$2,800,000 of mortgage proceeds left over and still owned all the buildings?

Mr. PUNIA. Not exactly mortgage proceeds. Also you had the premiums.

Mr. SIMON. Isn't that the proceeds of the mortgage?

Mr. PUNIA. I wouldn't think so, Mr. Simon.

Mr. SIMON. If you have a \$100 bond, and you sell it for \$102, the proceeds are \$102, aren't they?

Mr. PUNIA. If you sell a bond for \$102, you make \$102, but I don't think that can be classified as such. We are just playing around with language.

Mr. SIMON. Let's not quarrel over the language. The proceeds of these mortgages, including the premiums you got on them, were \$2,800,000 more than the total cost?

Mr. PUNIA. As a result of surplus over mortgage and premiums.

Mr. SIMON. Let's make it clear we understand ourselves. When you finished the building of these 25 buildings, your group had in your pockets \$2,800,000 more than you started out with and you owned 25 buildings with mortgages on them of close to \$40 million?

Mr. PUNIA. If your arithmetic is correct, the corporation has the money; yes.

Mr. SIMON. I am using your figures. I have no fear that they are not correct.

Mr. PUNIA. My figures are taken from our books by our accountants. I didn't do any adding here.

Mr. SIMON. In none of these cases are you or any of your group responsible for the payment of the mortgage?

Mr. PUNIA. That is correct. We are not responsible.

Mr. SIMON. Any one of these can go by the boards and you can keep the other 24?

Mr. PUNIA. That is a fact, but may I say this, please? May I have your indulgence?

Mr. SIMON. Certainly.

Mr. PUNIA. I don't think anything we built is going to go bad. I think every one of them is a good mortgage. I think every one of them is going to get paid off. I think that the FHA is going to make money out of these.

I am speaking about our projects. We have always tried to confine them to good areas, good construction. After we built the first 1 or 2, we came to the conclusion this was a long range situation and went in for a better house.

I don't think that we have got in all the apartments that we have a tenant, of 1 percent of vacant apartments.

Mr. SIMON. Let me ask you 2 questions on that: If anybody loses any money on these 25 buildings, it will only be the United States Government; is that true?

Mr. PUNIA. That is correct, sir.

Mr. SIMON. You can't lose any money, you have already \$2,800,000 out?

Mr. PUNIA. That is correct.

Mr. SIMON. And in the 30 years that these mortgages run, if times are good everybody may be happy, but if there is any trouble, the Government is carrying the risk; is that right?

Mr. PUNIA. That is correct, sir, but—

Mr. SIMON. But let me ask you one more question. Were you aware of the fact that Congress said in the law permitting these mortgages that the mortgage was in no event to exceed 90 percent of the estimated cost?

Mr. PUNIA. I was not.

Mr. SIMON. You were not aware of that?

Mr. PUNIA. No, sir.

Mr. SIMON. Were you aware of the fact that in 1947 Congress amended the law to provide that in estimating his costs the Federal Housing Commissioner should come as close as possible to the actual cost of efficient builders?

Mr. PUNIA. I did not.

Mr. SIMON. You didn't know that?

Mr. PUNIA. No, sir.

Mr. SIMON. Did you ever read the National Housing Act under which you got \$40 million worth of mortgages?

Mr. PUNIA. Truthfully, I never read the act because it was always the regulation that prevailed as far as we were concerned. That is what we always looked into, the regulations and not the act, itself. The regulation is what governs.

Mr. SIMON. I might add it is the statute that governs and not the regulations, because the Housing Commissioner cannot overrule Congress.

Even the regulations—were you aware that they provided that you couldn't get a mortgage for more than 90 percent of the estimated cost?

Mr. PUNIA. No.

Mr. SIMON. You didn't know that regulation was in existence?

Mr. PUNIA. Will you repeat that, Mr. Simon?

Mr. SIMON. Did you know that the regulations provide that the mortgage could not exceed 90 percent of the estimated cost of the project?

Mr. PUNIA. Oh, yes, I knew that.

Mr. SIMON. You knew that?

Mr. PUNIA. That is right.

Mr. SIMON. Did you know that the statute had the same provision?

Mr. PUNIA. No, I did not.

Mr. SIMON. You knew it was in the regulations, but not in the statute?

Mr. PUNIA. That is right.

Mr. SIMON. You didn't know that the estimated costs were to be as close as possible to the actual cost of efficient builders?

Mr. PUNIA. Mr. Simon, may I answer that and elaborate on that a bit?

Mr. SIMON. I will be grateful if you would answer, and then go on and say anything you wish. Did you know that?

Mr. PUNIA. Would you repeat the question?

Mr. SIMON. Did you know that the statute provided that the Commissioner's estimate of costs was to be as close as possible to the actual cost of efficient builders?

Mr. PUNIA. That is correct, yes, I knew that.

Mr. SIMON. You knew that?

Mr. PUNIA. Yes. May I add something here, please?

Mr. SIMON. Yes.

Mr. PUNIA. There wasn't any builder that at the time he goes in to the FHA with a meager sketch and files an application can take off a cost-breakdown on that job, forgetting job conditions, forgetting about building conditions generally, forgetting about possible strikes, forgetting about any unusual situations that you can't control.

At the time you gave the FHA a plan or sketch, together with an application, it is just not humanly possible to estimate anything that is going to resemble a reasonable cost, an actual cost.

Mr. SIMON. Let's assume that is true, Mr. Punia. A competent appraiser or cost estimator that you might hire might make a mistake on estimates here and there, but unless over the long pull he averaged out and in the averages came pretty close to the actual costs, you would fire him, wouldn't you?

Mr. PUNIA. That is correct.

Mr. SIMON. Now, here you had 25 projects. I can understand how you could be up on one and down on another, but I would think on the whole you would come out pretty close to where you ought to be, and yet you were 20 percent off on the whole 25 projects.

Mr. PUNIA. How many I can't at the moment tell you, but how many of these projects do we have money invested in? Bearing that in mind, we are our own brokers, we are our own builders, we do everything else ourselves—

Mr. SIMON. Your figures show that in 20 of the 25 projects your actual costs were less than the mortgages and in not one of the 25 were your actual costs above the estimates. There are 5 of them in which your actual costs were above the mortgage, but the mortgage was only to be 90 percent of the estimate, and never once did you go over the estimate and 20 out of 25 times you went not only below the estimate, but below the mortgage.

Mr. PUNIA. Well, I should probably say that I consider myself a competent builder.

Mr. SIMON. Or would you say a poor estimator?

Mr. PUNIA. No, Mr. Simon. I have again got to repeat when we make up these statements and go into the FHA with them, we do not have sufficient material to take off a competent estimate. We just can't do it.

Senator BUSH. Do you, therefore, pad your estimate a little bit so you think you are on the safe side?

Mr. PUNIA. No, Senator, we do not.

Mr. SIMON. How does it happen that in these 25 projects, in 20 of them you are below the mortgage in your costs, well below, and in not one of them are you over your estimates?

Mr. PUNIA. Mr. Simon, in the first place our estimate was always 5 percent for architect's fee. An architect's job is not only drawing a set of plans and getting a building permit.

Mr. SIMON. In your application you told the FHA you were going to pay the architect 5 percent?

Mr. PUNIA. We estimated it at that.

Mr. SIMON. Why didn't you truthfully say in your application that, "We are going to pay the architect 1 percent, but we are going to do this other work ourselves"?

Mr. PUNIA. Because I don't think there was any room in the application for any such breakdown of it.

Mr. SIMON. There was a place for you to estimate what you were going to pay the architect, wasn't there?

Mr. PUNIA. There was.

Mr. SIMON. In each one of those cases you said you were going to pay the architect 5 percent?

Mr. PUNIA. That is right.

Mr. SIMON. And you never intended to pay him 5 percent, did you?

Mr. PUNIA. We estimated that if the average builder were to go out and retain an architect, and the architect was to perform the services that go with architectural work, he would have to pay him 5 percent. We did most of that work ourselves.

Mr. SIMON. But you didn't put that in your application, did you?

Mr. PUNIA. I don't think we did.

Mr. SIMON. Also the statute referred to the actual cost of efficient builders. When an efficient builder builds \$40 million worth of properties, does he go out and hire an architect and pay him 5 percent or does he do what you did, get an architect to work on a reduced basis?

Mr. PUNIA. I don't think that is quite a fair question to put to me, because there are plenty of builders that have the architects really living with the jobs for them, and they pay them for it.

Mr. SIMON. Do you know of any of these section 608 projects in the multi-million dollar class where they paid the architect 5 percent?

Mr. PUNIA. I don't know what they paid them, but——

Mr. SIMON. Did they pay them 5 percent?

Mr. PUNIA. I can't answer that.

Mr. SIMON. Do you know of anywhere they paid 5 percent?

Mr. PUNIA. No, I do not know of any.

Mr. SIMON. That is all.

Senator BUSH. Thank you, Mr. Punia. That will do for today.

The committee now stands in recess until tomorrow morning, at 10 o'clock.

(Whereupon, at 3:50 p. m. the committee recessed until 10 a. m., Thursday, August 26, 1954.)

FHA INVESTIGATION

THURSDAY, AUGUST 26, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
New York, N. Y.

The committee met, pursuant to recess, at 10:05 a. m., in the North Ball Room of the Hotel Astor, New York, N. Y., Senator Prescott Bush presiding.

Present: Senator Bush.

Also present: William Simon, general counsel; Thomas Kenney, Richard Hogue, and Charles E. Sells, assistant counsel, FHA investigation.

Senator BUSH. The committee will please be in order.

The first witness this morning was to have been Mr. David Kent. Is Mr. David Kent in the room?

Mr. Kent not being here, the committee is going to ask Mrs. Kent to come to the witness stand.

Mrs. Kent, will you stand and raise your right hand, please? Do you solemnly swear the testimony which you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF JOSEPHINE KENT, DORRIE MILLER HOUSING CO., BROOKLYN, N. Y.

Mrs. KENT. I do.

Senator BUSH. Will you sit right there, please, Mrs. Kent, and kindly pull those two microphones up close to the edge of the table so we can hear you.

Mrs. Kent, the committee understands that you are not well, and we will only keep you for a few moments on the stand. I want to say, first, before we question you that we appreciate your coming in and cooperating with the committee in connection with this important matter.

Mr. SIMON. Mrs. Kent, will you give the reporter your full name and address?

Mrs. KENT. Josephine Kent, 291 Exeter Street, Brooklyn, N. Y.

Mr. SIMON. You are the wife of David Kent?

Mrs. KENT. I am.

Mr. SIMON. When did you last see Mr. Kent?

Mrs. KENT. Wednesday morning a week ago.

Mr. SIMON. That would be Wednesday, August 18, 1954?

Mrs. KENT. I haven't a calendar. I guess that's the date. It wasn't this Wednesday past. Today is Thursday, it wasn't yesterday. It was a week ago.

Mr. SIMON. A week ago yesterday; that would be the 18th, then.

Mrs. KENT. Yes.

Mr. SIMON. Wednesday, the 18th.

Mrs. KENT. Yes.

Mr. SIMON. Have you spoken with him on the telephone since then?

Mrs. KENT. No; I haven't.

Mr. SIMON. Have you received any mail from him?

Mrs. KENT. No; I haven't.

Mr. SIMON. Do you have any idea where he is?

Mrs. KENT. I don't. I've tried to contact him and I have not been able to.

Mr. SIMON. I understand that you have telephoned all the places in the United States you think he might be and you've been unable to find him; is that right?

Mrs. KENT. That's true. The places are limited where I think I might reach him, though.

Mr. SIMON. Last week did the United States marshal in Brooklyn serve on you a subpoena for Mr. Kent's appearance here yesterday?

Mrs. KENT. Yes; he did.

Mr. SIMON. Was that served on you after he left town?

Mrs. KENT. Yes; it was.

Mr. SIMON. Did you ever discuss with him before he left the fact that this committee wanted to hear from him, or that he was to appear before this committee?

Mrs. KENT. I didn't discuss it with Mr. Kent. I knew he went to Washington to testify before this committee, but as far as this hearing that is taking place now I didn't discuss that with him.

Mr. SIMON. Thank you very much.

Senator BUSH. Thank you, Mrs. Kent; that's all.

Is Mr. Cook here?

Mr. Cook, will you raise your right hand, please? Do you solemnly swear that the information and testimony you give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF WILLIAM H. COOK, INVESTIGATOR, SENATE BANKING AND CURRENCY COMMITTEE

Mr. COOK. I do, sir.

Senator BUSH. Be seated, please, and give your name and address and official connection to the reporter.

Mr. COOK. William H. Cook, apartment 32, 1705 Peach Street NW., Washington, D. C. I am a staff investigator for this committee.

Mr. SIMON. Mr. Cook, do you know who is Mr. Kent's lawyer?

Mr. COOK. Irving Lane, Mr. Irving Lane.

Mr. SIMON. Did you have a conversation with Mr. Lane about an appearance of Mr. Kent before this committee?

Mr. COOK. I did, sir.

Mr. SIMON. When was that?

Mr. COOK. A week ago yesterday.

Mr. SIMON. That would be Wednesday, August 11?

Mr. COOK. August 18.

Mr. SIMON. I'm sorry, August 18, which is the same day Mrs. Kent has just testified Mr. Kent left town?

Mr. COOK. That is correct, sir.

Mr. SIMON. Will you tell us what the conversation was?

Mr. COOK. I had two conversations with Mr. Lane. About 10 o'clock in the morning I was in telephone communication with Mr. Lane and Mr. Lane requested that we postpone the appearance of David Kent until a later time. I told him that I had no permission to do so, that he would have to get permission from committee headquarters in Washington.

About 2 o'clock—

Mr. SIMON. Was there any conversation in the morning about Mr. Lane helping you serve a subpoena on him?

Mr. COOK. I asked Mr. Lane if he could produce Mr. Kent for the purpose of serving a subpoena. Mr. Lane said if he could arrange for a continuance of the appearance of Mr. Kent that he would produce Mr. Kent in his office that evening—that is, the evening of August 18—for the purpose of serving a subpoena.

About 4 o'clock in the afternoon I had another telephone conversation with Mr. Lane after the time Mr. Lane had talked to Washington, and found that a continuance was not going to be granted, and I asked Mr. Lane then again to produce Mr. Kent and Mr. Lane said in view of the fact that the continuance was not given that he would not produce Mr. Lane for the service of a subpoena.

Mr. SIMON. Thank you very much.

Senator BUSH. The committee is very much disappointed in Mr. Kent's attitude and his refusal to appear before this committee under subpoena, and we will therefore ask the Attorney General through the FBI to produce Mr. Kent for hearings here on Monday, September 27.

The committee feels—and I'm sure all good citizens agree—that it is the duty of all citizens to cooperate with the Government of the United States and in this very important matter certainly there can be no exception to that rule.

The next witness is Morty Wolosoff. Mr. Wolosoff.

Mr. Wolosoff, kindly raise your right hand. Do you solemnly swear that the information and testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF MORTY WOLOSOFF, ALLEY POND PARK APARTMENTS, BROOKLYN, N. Y., ACCOMPANIED BY ROBERT H. WINN, COUNSEL, AND ALFRED F. LOWETT, ACCOUNTANT

Mr. WOLOSOFF. I do.

Senator BUSH. Will you be seated please and give your correct name and address to the clerk?

Mr. WINN. Mr. Chairman, before we start the testimony—

Senator BUSH. May we get Mr. Wolosoff's name and correct address first?

Mr. WOLOSOFF. Morty Wolosoff, 102 Kings Point Road, Kings Point, Long Island, N. Y.

Senator BUSH. What is your business?

Mr. WOLOSOFF. I'm in the real-estate business.

Senator BUSH. Real-estate business.

What is your name?

Mr. WINN. Mr. Winn, Mr. Wolosoff's attorney. We'd like to have permission to have such pictures as are to be taken taken now and then have an agreement there will be no flash bulbs during the course of the testimony.

Senator BUSH. The committee has no objection to that procedure. Will you gentlemen take such pictures as you would like to have?

Now, Mr. Simon, will you question the witness?

Mr. SIMON. Mr. Wolosoff, are you connected with the Alley Pond project?

Mr. WOLOSOFF. That is correct, sir.

Mr. SIMON. Are there three corporations that own parts of that project?

Mr. WOLOSOFF. That is correct.

Mr. SIMON. Would you give us the names of the three corporations?

Mr. WOLOSOFF. Alley Pond Park Apartments No. 1, Inc.; Alley Pond Park Apartments No. 2, Inc.; and Alley Pond Park Apartments No. 3, Inc.

Mr. SIMON. What is the capital stock of Alley Pond Park Apartments No. 1?

Mr. WOLOSOFF. The capital stock in Alley Pond Park Apartments No. 1 is \$1,000.

Mr. SIMON. What is the capital stock in corporation No. 2?

Mr. WOLOSOFF. One thousand dollars.

Mr. SIMON. And in corporation No. 3?

Mr. WOLOSOFF. One thousand dollars.

Mr. SIMON. Who are the owners of the capital stock in those three corporations?

Mr. WOLOSOFF. My brother, Alvin B. Wolosoff, and myself.

Mr. SIMON. Each own 50 percent?

Mr. WOLOSOFF. That is correct.

Mr. SIMON. Did you each pay \$1,500 for the 50 percent of the stock in the corporations, the three corporations?

Mr. WOLOSOFF. That is correct.

Mr. SIMON. Where are these buildings located?

Mr. WOLOSOFF. The buildings are located at Springfield Boulevard and Union Turnpike in the Borough of Queens.

Mr. SIMON. How big is the project?

Mr. WOLOSOFF. Altogether there are 550 apartments.

Mr. SIMON. In the three corporations?

Mr. WOLOSOFF. That's correct.

Mr. SIMON. Do the building corporations which have the FHA-insured mortgages own the land on which the buildings are built?

Mr. WOLOSOFF. No, sir.

Mr. SIMON. In other words, the FHA mortgage covers only the buildings and does not cover the land?

Mr. WOLOSOFF. That is correct.

Mr. SIMON. Who owns the land?

Mr. WOLOSOFF. My brother and myself.

Mr. SIMON. When did you buy the land?

Mr. WOLOSOFF. Well, we started to assemble this land in 1944.

Mr. SIMON. You bought it over a period of time from 1944 to when?

Mr. WOLOSOFF. Oh, I guess about 1950 the last piece was assembled.

Mr. SIMON. What was the total cost of the land?

Mr. WOLOSOFF. Well, starting back in 1944, but taking the total in full, it was about \$175,000 or something like that; and with carrying charges up to the date we started to build on it I would guess that it was about \$200,000.

Mr. SIMON. At what amount did FHA appraise the land?

Mr. WOLOSOFF. Well, I don't know what they appraised it at. If you're asking for what their redemption cost—

Mr. SIMON. Yes; what is the recapture price?

Mr. WOLOSOFF. Recapture price? In the vicinity of \$700,000. Do you want that exact?

Mr. SIMON. Is it \$737,000?

Mr. WOLOSOFF. It could be.

Mr. SIMON. Is there a mortgage on the land?

Mr. WOLOSOFF. Just on one section.

Mr. SIMON. What is that?

Mr. WOLOSOFF. It was 90 percent of the amount that first section. I can give it to you in a few minutes, I believe.

Mr. SIMON. Does that mortgage exceed the mortgage on one section? Does it exceed your costs for the three sections?

Mr. WOLOSOFF. I don't know. I'll have to look that up, sir, if you will bear with me a minute.

Mr. SIMON. Yes, sir.

Mr. WOLOSOFF. I would judge that mortgage to be about \$140,000.

Mr. SIMON. And the original cost of land was \$175,000, and you have a total investment in it, you think, including interest and carrying charges, of \$200,000?

Mr. WOLOSOFF. That's correct.

Mr. SIMON. So in the entire tract of land you have \$50,000 invested, sir?

Mr. WOLOSOFF. Well, I might also mention at this time that this mortgage was taken after the buildings were either completed or partially completed.

Mr. SIMON. Now is the rent you get about \$30,000 a year on that land?

Mr. WOLOSOFF. That is correct.

Mr. SIMON. And the building corporation on which the FHA has insured a mortgage is required to pay you and your brother \$30,000 a year rent for 99 years; is that right?

Mr. WOLOSOFF. That is correct.

Mr. SIMON. And if they want to keep their buildings after the end of the 99 years they can renew it for another 99 years by paying you \$30,000 a year? I don't mean you, but your heirs; is that right?

Mr. WOLOSOFF. That's correct.

Mr. SIMON. What is the amount of the mortgages on those buildings, the FHA-insured mortgages?

Mr. WOLOSOFF. All together? You want a total?

Mr. SIMON. On the three corporations?

Mr. WOLOSOFF. \$4,612,000, I believe.

Mr. SIMON. \$4,612,000?

Mr. WOLOSOFF. Yes.

Mr. SIMON. What was the cost of constructing the buildings, including interest during construction, carrying charges, and all those other items?

Was it \$4,176,423?

Mr. WOLOSOFF. Well, I had it broken down into each section, sir.

Mr. SIMON. Was section No. 1 \$924,279.50?

Mr. WOLOSOFF. That's correct.

Mr. SIMON. Section No. 2 was \$918,579.50?

Mr. WOLOSOFF. That's right.

Mr. SIMON. Section No. 3 was \$2,333,564?

Mr. WOLOSOFF. That's correct.

Mr. SIMON. And I think if you will add that you find the total to be \$4,176,423; is that right?

Mr. WOLOSOFF. That could be.

Mr. SIMON. And that is \$437,000 less than the amount of the FHA mortgage?

Mr. WOLOSOFF. That is correct.

Mr. SIMON. Did you get a premium on these mortgages?

Mr. WOLOSOFF. Yes, sir.

Mr. SIMON. And what was the amount of the premium?

Mr. WOLOSOFF. About \$40,000.

Mr. SIMON. So that the proceeds of the mortgages exceeded the cost by \$477,000; is that right?

Mr. WOLOSOFF. I believe that has been included in the cost; that \$437,000 would have been the full amount.

Mr. SIMON. The \$437,000 includes the premium?

Mr. WOLOSOFF. I believe so.

Mr. SIMON. That's not the information we have.

Mr. WOLOSOFF. Well, then, let's hold it a minute.

I'm not sure of that but I will acquaint you with that fact before we get off the stand.

Mr. SIMON. I think you'll find that your own books show that the \$40,000 is not included in the \$437,000 and that your total excess of mortgage proceeds over cost, according to your books, is \$477,000.

After the buildings were built did you on your books increase the cost or the value of the buildings as a bookkeeping entry by \$517,000?

Mr. WOLOSOFF. I would like to read what happened there, if you don't mind.

Mr. SIMON. Can you tell us if that is what you did?

Mr. WOLOSOFF. We didn't do it ourselves. We hired a firm of appraisers.

Mr. SIMON. Are you a director of the company?

Mr. WOLOSOFF. Yes.

Mr. SIMON. Who are the other directors?

Mr. WOLOSOFF. My brother is one; I don't remember who the rest of them are.

Mr. SIMON. How many directors are there?

Mr. WOLOSOFF. There must be three. I don't know who the third one is.

Mr. SIMON. You don't know who the third director is? As I understand the corporate law in New York only the directors can write

up the assets of the corporation. As a director did you vote to write up the assets of these buildings—the asset value of these buildings?

Mr. WOLOSOFF. Yes; on the basis of the appraisal made.

Mr. SIMON. How long after the buildings were completed did you as a director vote to write up the asset value of the building?

Mr. WOLOSOFF. The appraisals were made December 10, 1950—

Mr. SIMON. My question was, How long after the buildings were completed did you vote to write up the asset value of the buildings?

Mr. WOLOSOFF. It must have been about the time of completion.

Mr. SIMON. About the time of completion. And did the directors, including yourself, vote to increase the asset value of these buildings upon completion by \$517,600?

Mr. WOLOSOFF. What was that figure, sir?

Mr. SIMON. As I understand it there were 2 writeups, 1 of \$517,600; is that right?

Mr. WOLOSOFF. Well, according to the figures I have here on No. 1 it was \$84,000; No. 2 was \$85,000; and the third one was \$300,000. That is in excess of the mortgage as it was originally insured.

Mr. SIMON. The figures you gave, which are approximately \$500,000, are in addition to writing up the cost from the actual cost to the amount of the mortgage; is that right?

Mr. WOLOSOFF. You would be correct in that.

Mr. SIMON. Is that right?

Mr. WOLOSOFF. That is right.

Mr. SIMON. So there were two writeups. The first writeup was writing it up from cost to the amount of the mortgage; is that right?

Mr. WOLOSOFF. No; there was only one writeup.

Mr. SIMON. Well, then you wrote up the value of the buildings by the difference between the cost and amount of the mortgage, which was \$437,000, and then an additional writeup of about a half million dollars?

Mr. WOLOSOFF. Oh, I don't agree; that was not done, sir. There was one writeup.

Mr. SIMON. Was the one writeup by an amount which was the sum total of the difference between the cost and the mortgage and an additional half million dollars?

Senator BUSH. Was the writeup approximately \$950,000?

Mr. WOLOSOFF. I don't believe so.

Senator BUSH. What was it?

Mr. SIMON. Let me ask you this question, Mr. Wolosoff: Was the writeup to a figure of a half million dollars above the mortgage?

Mr. WOLOSOFF. Yes.

Mr. SIMON. And the mortgage was \$437,000 above the cost; is that correct?

Mr. WOLOSOFF. In that event there would be about \$900,000—

Mr. SIMON. So that the write-up was about \$937,000 above the cost?

Mr. WOLOSOFF. That is correct, and that was based on the appraisal made by an appraising outfit.

Senator BUSH. Who made that appraisal?

Mr. WOLOSOFF. Hosinger & Bode.

Senator BUSH. How much did you pay them for it?

Mr. WOLOSOFF. A couple of hundred dollars, I don't remember for sure. Wait a minute. My accountant advises me it was between \$1,200 and \$2,000; I beg pardon.

Mr. SIMON. And after that appraisal you, upon completion of the building, wrote up the asset value of your property by \$937,000 above its cost?

Mr. WOLOSOFF. That is correct.

Mr. SIMON. Did you then distribute to yourselves a half million dollars as dividends?

Mr. WOLOSOFF. That is correct.

Mr. SIMON. And half of that went to you and half of that went to your brother; is that right?

Mr. WOLOSOFF. That is right.

Mr. SIMON. Mr. Wolosoff, the law provides—

Senator BUSH. May I ask a question there? Why did you employ these appraisers to give you a valuation in this situation?

Mr. WOLOSOFF. I think my accountant could answer that question.

Senator BUSH. Well no, you're the witness. We don't mind you consulting with him but you must know why you employed the appraisers to make this appraisal. Why did you do that?

Mr. Wolosoff, you employed the appraisers, did you not?

Mr. WOLOSOFF. That's correct.

Senator BUSH. So you must have known why you wanted them to make the appraisal. Will you tell the committee why you wanted them to make the appraisal?

Mr. WOLOSOFF. The idea was to determine the current value of the property at that time.

Senator BUSH. You had just finished the property and you had paid all the bills and you didn't know what the property was worth?

Mr. WOLOSOFF. And rented it too.

Senator BUSH. And you rented it.

Mr. WOLOSOFF. That's right.

Senator BUSH. So you didn't know what it was worth and you wanted to find out what it was worth?

Mr. WOLOSOFF. Well we wanted competent people to put a value on it, unbiased people to put a value so we could have a value for the books.

Senator BUSH. Despite the fact you had just finished building it and then were in a position to take a half million dollars cash out of it you still felt it necessary to find out what it was worth?

Mr. WOLOSOFF. That is correct.

Senator BUSH. Why did you want to know what it was worth?

Mr. WOLOSOFF. So I could put it on the books.

Senator BUSH. What good is that to do? What did you accomplish by that? That's just a bookkeeping entry, it means nothing.

Mr. WOLOSOFF. Well, I'm not a bookkeeper, sir, and I understand from what I have been told that there has to be a value of the property on the books.

Senator BUSH. Well, there doesn't have to be an excessive value.

Mr. WOLOSOFF. I didn't make it excessive, sir, all I did was produce the job.

Mr. SIMON. Mr. Wolosoff, isn't it a fact that New York corporate law prohibits the payment of dividends except out of surplus and that you wrote up the value of the property in order to create a surplus so you could pay this money out?

Mr. WOLOSOFF. That could be true.

Mr. SIMON. Well, it is true, isn't it?

Mr. WOLOSOFF. Yes.

Senator BUSH. Then that's the reason you had the appraisal?

Mr. WOLOSOFF. Well, it was one of the steps.

Senator BUSH. That was the reason, was it not?

Mr. WOLOSOFF. Yes, sir.

Senator BUSH. All right.

Mr. SIMON. Mr. Wolosoff, the law provides—and I take it you knew the law provided—that a mortgage could not exceed 90 percent of the estimated replacement cost of the property. Did you know that?

Mr. WOLOSOFF. I do.

Mr. SIMON. Did you know it at the time you built these buildings?

Mr. WOLOSOFF. I did, and I'd like to talk about that too, if you don't mind.

Mr. SIMON. I have a couple of more questions to ask you. Did you know in 1947 the Congress passed an amendment to the law providing that the examiner, in fixing the estimates of cost, should go as close as was feasible to the actual costs of efficient builders?

Mr. WOLOSOFF. That is correct.

Mr. SIMON. You knew that then, too?

Mr. WOLOSOFF. I did.

Mr. SIMON. I take it you would concede that you were an efficient builder?

Mr. WOLOSOFF. That is correct.

Mr. SIMON. In your case here, instead of the mortgage being 10 percent under the cost the mortgage was 10 percent over the cost, or a discrepancy of 20 percent in your estimate; which under the 1947 amendment was to be based on the costs of an efficient builder. What I would like to know is at the time you filed these applications, at the time you started construction of these buildings did you contemplate that the costs would be less than the mortgage?

Mr. WOLOSOFF. No, sir.

Mr. SIMON. Was it a complete surprise to you that you ended up being 20 percent off?

Mr. WOLOSOFF. Well I think that could best be answered if you would let me discuss the steps that go into this thing.

Mr. SIMON. I'd like to know whether it was a complete surprise to you that you turned out to be 20 percent off?

Mr. WOLOSOFF. Yes.

Mr. SIMON. You really thought this building was going to cost you 10 percent more than the mortgage?

Mr. WOLOSOFF. As a matter of fact there is a contingent liability on this property that you are talking about—this profit, rather, that you are talking about, of \$500,000 to a plumber who is suing us, and I still don't know whether this is a profit or I'm going to lose the \$500,000 or not.

Mr. SIMON. Why did you take it out of the corporation as a dividend if you didn't think it was profit?

Mr. WOLOSOFF. The suit was started after the dividend was given.

Senator BUSH. What is the basis of the suit?

Mr. WOLOSOFF. It's a plumber suing us for damages.

Mr. SIMON. Who is he suing?

Mr. WOLOSOFF. All of us, all the Alley Pond Cos.—us personally.

Senator BUSH. And the corporation?

Mr. WOLOSOFF. That is correct.

Mr. SIMON. Did you personally contract with the plumber?

Mr. WOLOSOFF. Not personally.

Mr. SIMON. Of course it's a corporation, and they have to pay the plumber. It doesn't affect you or the half million dollars you already took out, does it?

Mr. WOLOSOFF. As long as it's on the land I think he has a right to make us all part of the suit.

Mr. SIMON. As of today you have a half million dollars you and your brother took out of this corporation?

Mr. WOLOSOFF. That is correct.

Mr. SIMON. The mortgage that you put on one part of the land is almost equal to what you paid for all of the land; is that right?

Mr. WOLOSOFF. Not quite.

Mr. SIMON. Well within \$25,000 of it; is that right?

Mr. WOLOSOFF. Well I figure that cost for \$200,000.

Mr. SIMON. Well, within \$50,000 of it. You are getting \$30,000 a year rental on that land for as long as any of us will ever live; and even if the mortgages on the buildings go bad and the Government has to take over the buildings you still will get that \$30,000 a year rent forever; is that right?

Mr. WOLOSOFF. That is correct. But let me also say at that point that land today is worth far in excess of the redemption value of the land and I will prove that if you like.

Mr. SIMON. Well I take it one of the reasons it's worth more than you paid for it is because the Government financed the buildings; isn't that right?

Mr. WOLOSOFF. I would pay more for that land today if the Government ran a bulldozer through it and just gave me the naked piece of land.

Mr. SIMON. Are you completely satisfied that over the next 99 years the land will always be worth more than that amount?

Mr. WOLOSOFF. I'm sorry, I'm not a seer.

Mr. SIMON. Isn't it a fact that you have the profit and no matter what happens you are not going to lose any money, and the Government has the risk?

Mr. WOLOSOFF. Well I think the Government risk will only last for about 5 or 6 years more at which time if we were to go out of FHA any savings bank or mortgage company in New York would be very happy to place a mortgage on that building, so that the Government risk could be dissipated not in 99 years but in a couple of years.

Mr. SIMON. The mortgage, however, runs for 30 years, doesn't it?

Mr. WOLOSOFF. I believe so.

Mr. SIMON. And what you are saying is you hope in 5 or 6 years to be able to refinance the property and pay off the Government mortgage; is that right?

Mr. WOLOSOFF. I say it is possible to do that.

Mr. SIMON. It's possible?

Mr. WOLOSOFF. That's right.

Mr. SIMON. But I say again, the risks, the only person taking any risk here is the Government?

Mr. WOLOSOFF. Well that was the idea behind the whole thing. The Government was the one that wanted the housing and they had to take a risk.

Mr. SIMON. And your theory is because the Government wanted housing the builders should get all the profits and the Government should take all the risks; is that right?

Mr. WOLOSOFF. Well, the Government—I think the Government got their share of the whole thing too.

Mr. SIMON. You mean you think the Government's share was taking the risks; is that right?

Mr. WOLOSOFF. Well, I think there was value received all the way around. I think everybody got value.

Mr. SIMON. Well, isn't it true that you got profits and the Government is taking all the risks?

Mr. WOLOSOFF. The Government got premiums and they got housing, and I got profits.

Mr. SIMON. But all the risks involved are taken by the Government: isn't that true?

Mr. WOLOSOFF. I wouldn't say that by a long shot. At the time this job started I lent this company four-hundred thousand dollars some odd.

Mr. SIMON. It was all paid back out of the mortgage, wasn't it?

Mr. WOLOSOFF. There was no guaranty I was going to get that back; that was risk capital, sir.

Mr. SIMON. Wasn't it just a loan to the company?

Mr. WOLOSOFF. If there was no money to pay it back who was I going to get it from?

Mr. SIMON. Didn't you have a commitment from the Federal Government to loan you close to \$5 million before you advanced that money?

Mr. WOLOSOFF. That is so, sir, but I didn't know whether these buildings were going to cost \$4,600,000, or \$4 million, or \$5,600,000; and if you would let me explain to you how the variance in cost could have taken place I'd be very happy to do so and maybe you will understand what I mean by it.

Mr. SIMON. Glad to have you explain it. We have been trying for 4 months to get somebody to explain how this can happen, and we'd be very happy to have someone do it.

Mr. WOLOSOFF. Well there are several ways of building a job and there was no law that said that Morty Wolosoff and Alvin B. Wolosoff had to build it. Mr. Simon could have built it too; he's not much of a builder I guess—

Mr. SIMON. We find even dentists built these buildings and came out ahead.

Mr. WOLOSOFF. Well, I think they were lucky.

If I chose to build these buildings, that is, produce these buildings, by hiring a general contractor from the very inception by giving him a set of plans and set of specifications and saying, "Look fellows, I want completed buildings; how much do you want for the job, finished?" I am sure that \$8,100 would be 90 percent of the full cost, or they would want at least \$9,000 to do the job per unit—per unit I am talking about.

However, if A. B. and Morty Wolosoff decided to put overalls on and do every stick of work in that building from its beginning to its end we could probably build those units for about \$7,500 a unit, because we could put our own labor in very cheap.

Now the buildings would not be any better or any worse if either one of them did it, but the buildings would be built.

What I am trying to bring out is that there were several ways of doing it. Now, we didn't take one extreme nor did we take the other extreme. If we gave it to a general contractor why we could have gone to California for a vacation and when we came back the buildings would have been completed.

Of course you would take a very reputable general contractor and he probably would have done a very fine job. His buying powers, while they are great, are not as competent as the buying power that we have. We use local contractors, we buy cheap. We shop around for materials; we know where to shop for it.

You must not forget we have been in the Borough of Queens for 25 years.

Mr. SIMON. What you are saying is that you and your brother are efficient builders; is that right?

Mr. WOLOSOFF. No; I'm not saying that at all.

Mr. SIMON. Aren't you efficient builders?

Mr. WOLOSOFF. We are efficient builders.

Mr. SIMON. That is what I assumed.

Mr. WOLOSOFF. So we took a middle course, we hired subcontractors to do it, and at the time it looked like the buildings would be built for about \$8,100.

Now there are breaks that you get and breaks that you don't get in the building of buildings. When the job started lumber was selling for \$70 a thousand. Toward the end of the job lumber was up to about \$95 a thousand.

Unfortunately we can't hold these dealers to a price so we try to compromise in there, telling them, you took the job and you took it for \$70 so you compromise somewhere around \$80.

That's only one item. Prices were fluctuating so fast we had no control and never knew to the very end what the actual cost would be.

Now another thing relating to timing. You gentlemen have been sitting here and you've heard of 4 percent on mortgage, premiums on mortgage. We received seven-eighths of 1 percent. We didn't get seven-eighths of 1 percent because our buildings were inferior or we didn't know who to go to. It was just timing. The bond market was such at that time all you could get was seven-eighths of 1 percent.

So I say to you that there was no sure thing that your buildings were going to cost you X number of dollars; and if they did cost more than the amount of the mortgage that risk loan that I talked of could not have been paid back.

Senator BUSH. Well, Mr. Wolosoff, it was a sure thing when you started that you were going to get your money out of it, wasn't it?

Mr. WOLOSOFF. I wouldn't say so.

Senator BUSH. Just as one businessman to another tell me, wasn't it a sure thing when you started that you were going to get your money out of it?

Mr. WOLOSOFF. I wouldn't say that.

Senator BUSH. Where was the doubt? You knew that you were going to be able to mortgage out?

Mr. WOLOSOFF. I didn't know it.

Senator BUSH. You didn't know it?

Mr. WOLOSOFF. No.

Senator BUSH. You're one of the first if not the first that has indicated there was much doubt about that.

Mr. WOLOSOFF. I can only speak for myself, sir.

Senator BUSH. That's right.

Mr. SIMON. Mr. Wolosoff you made quite a point of the fact that you didn't go out and hire a general contractor to build this at a high cost. No efficient builder would go out and hire a general contractor to build a building for him, would he?

Mr. WOLOSOFF. Why not?

Mr. SIMON. I can understand why a corporation engaged in selling dresses which wants a factory built would go out and hire a general contractor, but a builder himself doesn't go out and hire a general contractor, does he?

Mr. WOLOSOFF. Well actually when we put the application in for this job—

Mr. SIMON. Please answer my question.

Mr. WOLOSOFF. I will answer that question.

Mr. SIMON. Does a builder go out and hire a general contractor to go out and build him a building?

Mr. WOLOSOFF. If he has other work and can't handle it at all he might hire a general contractor.

Mr. SIMON. That would be the exception, wouldn't it?

Mr. WOLOSOFF. Well it was our original plan, sir, to do several of these jobs, and knowing that we couldn't build them all, to give some of them out in general contract.

Mr. SIMON. What do you think Congress had in mind when they said the cost should be as close as feasible to the cost of efficient builders?

Mr. WOLOSOFF. Well I would say a general contractor is an efficient builder too.

Mr. SIMON. You don't think that what the Congress had in mind was that people like you, and Mr. Punia who we had yesterday, and Mr. Gross, who are efficient builders, should be the yardstick for measuring these mortgages?

Mr. WOLOSOFF. Well at the time they had people out in the field asking questions about—

Mr. SIMON. Congress doesn't have people in the field.

Mr. WOLOSOFF. Somebody did; I don't know what the Congress did. I believe somebody from FHA was sent around.

Mr. SIMON. I have no doubt but what FHA did not carry out the intent of Congress in the 1947 amendment but I'm asking you.

Mr. WOLOSOFF. I'm not here to defend them, sir.

Mr. SIMON. I'm asking you what you thought Congress had in mind when they said these mortgages should be 90 percent of the cost of efficient builders?

Mr. WOLOSOFF. Well I don't believe Congress knew that fellows like the Long Island builders were around. I think for the greatest part they had in mind that there were people that put up buildings.

Now you take the city of Washington where they might be better acquainted. I think there's a contractor, Mr. McShane; well when you speak to a fellow like McShane and get costs you would get different costs than you would get from me. So they probably took what they thought was a cross section.

Mr. SIMON. Well then let me ask you this, when you finished the building and you found you were 20 percent off why didn't you go to FHA and tell them that and offer to reduce the amount of the mortgage?

Mr. WOLOSOFF. Well there wasn't much sense to that because I couldn't see anybody that was going to get an advantage there except that——

Mr. SIMON. I'll tell you one person right now who would have gotten an advantage. You know, I take it, your rents were based upon 6½ percent of the estimated cost plus operating expenses; you know that, don't you?

Mr. WOLOSOFF. I do.

Mr. SIMON. And had the mortgage been reduced by 20 percent the rents would have been reduced by an amount equal to 6½ percent of that amount; isn't that true?

Mr. WOLOSOFF. How much is that, do you know, per room?

Mr. SIMON. You had roughly a \$5 million mortgage; 20 percent of that is \$1 million. Six and a half percent of that is \$650,000 a year, and had you reduced the mortgage by the amount we are talking about the rents would have been \$65,000 a year less.

Mr. WOLOSOFF. That would be about \$15 an apartment; am I correct in assuming that, \$10 or \$15 an apartment?

Mr. SIMON. Well, that divided by 500 apartments would be about \$10 a month per apartment.

Mr. WOLOSOFF. No; your figuring is wrong.

The CHAIRMAN. No; it isn't.

Mr. SIMON. \$65,000 a year would be \$65 a year if there were a thousand——

Mr. WOLOSOFF. I will save you all the bother.

Mr. SIMON. Wait a minute. You said my figures——

Mr. WOLOSOFF. The FHA figured these rooms at \$30 a room. I'll answer your question——

Mr. SIMON. Wait a minute, let's get one thing at a time.

Mr. WOLOSOFF. If we want to do a mathematical problem we can do it, but I know what you are trying to bring out.

Mr. SIMON. Isn't it true it would be \$10 an apartment a month or \$120 a year?

Mr. WOLOSOFF. That's right.

Mr. SIMON. All right. And you said a moment ago nobody would have benefited had you volunteered to put the mortgage where it should have been, had the cost been estimated at what it was. The tenants would have benefited.

Mr. WOLOSOFF. That is not so, but you won't let me answer you.

Mr. SIMON. Why isn't it so?

Mr. WOLOSOFF. Because the FHA allowed me \$30 a room in rental, that was the figure they put on it. That's when I would have gotten that 6 percent you are talking about. The actual rental I received

over there was a going market value of \$24 a room and that is what I received.

I have a brochure here that will show you what we were getting for these apartments, so that the tenant was not hurt.

Mr. SIMON. Well, without our going into the amounts the tenants paid, the FHA rent ceiling would have been \$10 a month an apartment less if you had volunteered to reduce the mortgage; wouldn't it?

Mr. WOLOSOFF. If I attempted to reduce the mortgage the best thing that could have happened to me was that I would have had big legal bills changing the whole thing around; as far as the lending institution is concerned they would credit the reduction to the end of the mortgage. That was 30 years hence and I saw nobody—the amortization charges, of course, would have remained constant, except toward the end they would have reduced—

Mr. SIMON. The Government's liability would have been that much less.

Mr. WOLOSOFF. I said there was an exception before and that is the exception I was talking about. The Government would have had a liability less, so Mr. Wolosoff, the lone builder in the whole United States, was going to knock down their guaranty by three or five hundred thousand dollars after they had placed I don't know how many billions of dollars in loans—

Mr. SIMON. I'm not suggesting you should have been the only one to do it. I think they should all have done it who got mortgages far in excess of costs.

Mr. WOLOSOFF. We must bear in mind if that were the case, I think that should have been written into the law, and if they had written it into the law, I don't know whether all the builders of the United States would have taken on this sort of a project.

Mr. SIMON. You mean unless they could have made these profits you say they wouldn't have built the buildings?

Mr. WOLOSOFF. Well, I can't speak for anyone else, Mr. Simon, but that is possible some builders thought they could make some money here, and that's why they undertook the project. If they couldn't make any money, they would say let somebody else build section 608's.

Mr. SIMON. If you had been unable to build a building for less than the amount of the mortgage, would you not have undertaken it?

Mr. WOLOSOFF. Let me say if I had to put any of my own money into the job, I would have thought twice before doing it. However, there was a chance that it was going to happen, and the gamble pointed that I would at least break even; but there was a chance that it could have cost more or it could have cost less.

As I said before, it was very impossible for us to say, well, this job is going to cost X dollars and so many cents. To start with, we never had a set of plans until the commitment was out, if you know the procedure. We never could get a true picture of what those buildings would cost. It was all rule-of-thumb measurement, and that's why it had to be so ambiguous.

Mr. SIMON. Now we're getting a little closer to where I thought we were earlier. You say if you thought you'd have had to put any of your own money in here, you'd have thought twice.

Mr. WOLOSOFF. That's right. I didn't say I wouldn't do it. I said I would have thought twice.

Mr. SIMON. I infer from that you probably wouldn't have done it if you had to put any of your own money in it.

Mr. WOLOSOFF. Well, maybe I would.

Senator BUSH. If you could have built a building, built these buildings and owned the fee on a 99-year lease and gotten \$30,000 a year out of that and also owned the building and had no equity in it that would have been a pretty attractive proposition, wouldn't it?

Mr. WOLOSOFF. Senator, let me say—

Senator BUSH. Wait a minute, just answer me. As a businessman to you—you're a businessman and in the real-estate building business—isn't that an attractive proposition if you can build a building, get all your money out of it, own a 99-year lease underneath it, have no investment in the equity, but own it. Isn't that a pretty attractive proposition?

Mr. WOLOSOFF. Not any more attractive than we could have done building one-family houses at the time, sir.

Senator BUSH. I didn't ask you that.

Mr. WOLOSOFF. Well, you said it was a pretty attractive proposition. Either that is the best proposition you have at the time or you have a better one.

Senator BUSH. Well, you're telling me building one-family houses might have been a more attractive proposition?

Mr. WOLOSOFF. Well, we were building one-family houses prior to building section 608's and we always did very well with them.

Mr. SIMON. Were they FHA-insured projects, too?

Mr. WOLOSOFF. Yes.

Senator BUSH. Mr. Kenney will question.

Mr. KENNEY. In your estimate of the cost of \$4,176,428 does that include any fees to yourself?

Mr. WOLOSOFF. No, sir.

Mr. KENNEY. Where do you expect to get your fees from if you don't make allowance out of the construction cost?

Mr. WOLOSOFF. Do you mind repeating your question, sir?

Mr. KENNEY. Where do you expect to get paid to do the job unless you get it out of the cost of construction? Ordinarily.

Mr. WOLOSOFF. Well the best way I could answer that would be to come back to the statement I made before, whether we give it to a general contractor and boost that price up or do it ourselves with our own labor—not our own supervision but our own labor; we did not charge anything to ourselves because early in the job we did not know, as I have previously stated, that there would be enough money to pay for the supervision. Consequently there was no sense charging the job and getting back your own money.

Mr. KENNEY. Well this excess mortgage of \$437,000 is really your profit in promoting and completing the construction of the building, isn't it? That's about a 10-percent profit. Is that a usual and ordinary profit for this type of job?

Mr. WOLOSOFF. Well let me say that that sort of a profit in the building business is not excessive. I'm not talking about this sort of a job. If we did a million dollars worth of buildings in the year—and I say we were in the one-family house business—we made at least a hundred thousand dollars. There's nothing unusual about that. That was no banner year.

Senator BUSH. Would you still own those houses?

Mr. WOLOSOFF. No.

Senator BUSH. But the difference here is you still own the property and have a 99-year lease on it.

Mr. WOLOSOFF. I started to tell you before, Senator it's no bargain to own those buildings.

Senator BUSH. Why is that?

Mr. WOLOSOFF. You can't make any money on them.

Mr. SIMON. That's exactly the thing that intrigues me. You can't make any money on the buildings and if things don't improve some day they're apt to go back to the Government; isn't that right?

Mr. WOLOSOFF. Well let me say that I think FHA spoils our way of being able to make money on it—if I may let go on that.

Senator BUSH. Explain that statement a little bit.

Mr. WOLOSOFF. They offer the competition to us. I said before that we were getting \$24 a room and we were allowed to get \$30 a room.

Mr. SIMON. You mean there's too much housing in the New York area?

Mr. WOLOSOFF. No. They come in with a new gimmick every once in a while and people think they'd be better off if they paid \$18 a room or \$17 a room after they made a downpayment and buy a co-op.

Mr. SIMON. So you think the section 213 program is hurting your section 608 project; is that it?

Mr. WOLOSOFF. I can only say we used to have big waiting lists and since the section 213 program came in we don't have a waiting list, although we're full.

Mr. SIMON. Obviously it's a good thing for the landlord if you have a waiting list, but is that a good thing for the people of the community?

Mr. WOLOSOFF. I'm not complaining. I own the buildings, I'm keeping them, but if you keep mentioning you own the buildings like that's a feather in your cap—all it is is a lot of work in the office, that's all I can tell you.

Mr. SIMON. But the thing you emphasize—and I don't know whether it's intentional or unwittingly—if the builders are going to make money out of these things you have to have a tight market where there are long waiting lists.

Mr. WOLOSOFF. Not necessarily. If I could raise the rental out there without the city grabbing it back for city taxes we could make a dollar on the thing, but unfortunately you never have such a demand for your product that you can raise the price.

Mr. SIMON. In other words, if we got into a tenants' market where the tenant could shop around, there were plenty of apartments for him to select, and he had his choice of where he wanted to move, section 608 projects like yours would have a hard time keeping above water, wouldn't they?

Mr. WOLOSOFF. No. I think you can't produce a rental less than that for that kind of an apartment. I don't care what plan you come up with unless somebody subsidizes you, you can't come up with less than \$24 a room.

Mr. SIMON. I'm not sure you're being consistent. You said it was not a very good deal for you right now because FHA created so much competition in the cooperative housing program.

Mr. WOLOSOFF. That's right.

Mr. SIMON. But if FHA created more apartments which some people think they ought to do then the situation would be even more untenable for your building, wouldn't it?

Mr. WOLOSOFF. No; I don't think so. I think the people would become pretty educated on co-ops so they'd stay stuck with us.

Mr. SIMON. I'd like to ask you one more question. Who was your architect?

Mr. WOLOSOFF. Arthur Weiser.

Mr. SIMON. How much did you pay him?

Mr. WOLOSOFF. About—

Senator BUSH. Was it on a percentage basis?

Mr. WOLOSOFF. It amounted to about 1½ percent of the mortgage.

Mr. SIMON. I have before me an application for an FHA loan which purports to bear your signature and a date of September 30, 1948, and it says the architect's fee is going to be 6 percent.

When did you make your deal with the architect to pay him one-half percent?

Mr. WOLOSOFF. Prior to the issuance of commitments. Prior to the making of plans.

Mr. SIMON. Was that prior to the filing of the application?

Mr. WOLOSOFF. No.

Mr. SIMON. What architect's sketches did you file with the application for commitment?

Mr. WOLOSOFF. I don't understand—what sketches?

Mr. SIMON. Well, your application for a commitment says that attached to it is an outline of specifications and a typical floor plan, and a site plan.

Mr. WOLOSOFF. That's correct.

Mr. SIMON. Was that drawn by your architect?

Mr. WOLOSOFF. That's correct.

Mr. SIMON. This same architect?

Mr. WOLOSOFF. That's correct.

Mr. SIMON. Did you have a deal with him at the time he drew these as to what you were going to pay him?

Mr. WOLOSOFF. Yes.

Mr. SIMON. What was that deal?

Mr. WOLOSOFF. It amounted to about one and a half percent of—I'd rather give you a total on it.

Mr. SIMON. Well, was it one and a half percent of the cost or the estimate?

Mr. WOLOSOFF. Of the estimate.

Mr. SIMON. All right. Now that was made then before you filed the application, wasn't it?

Mr. WOLOSOFF. That's right.

Mr. SIMON. And yet when you filed your application you told FHA that the architect's fee was going to be 6 percent?

Mr. WOLOSOFF. I thought it was five.

Mr. SIMON. Well, I'll be glad to show you the application. Doesn't it show 6 percent?

Opposite architect's fee didn't you type in the word "six"?

Do you find it, Mr. Wolosoff?

Mr. WOLOSOFF. Yes, I find it.

Mr. SIMON. Isn't it six?

Mr. WOLOSOFF. It says six.

Mr. SIMON. Was that in there when you signed it? Was that in there when you signed it?

Mr. WOLOSOFF. If my signature is on it it must have been.

Mr. SIMON. Is that your signature?

Mr. WOLOSOFF. It is.

Mr. SIMON. Well if you had a deal with the architect to pay him 1½ percent why did you tell FHA it was 6 percent?

Mr. WOLOSOFF. Well it is the practice in our area for the builders to do the inspecting and the procuring themselves.

Mr. SIMON. Is it also the practice to make false statements in Government applications?

Mr. WOLOSOFF. Well that amount was paid out by people that had to work for me to do that but I could do that in my estimation better and maybe cheaper than the architect could.

Mr. SIMON. Then why weren't you truthful and tell FHA what you were going to do instead of telling them you were going to pay the architect 6 percent?

Mr. WOLOSOFF. Just because I did not allocate in my books that was for procurement and inspection doesn't mean it was for the equivalent of what they considered an architect's fee.

Mr. SIMON. But the application said to FHA you were going to pay the architect 6 percent; is that right?

Mr. WOLOSOFF. Well, architect's fees——

Mr. SIMON. The architect's fee was 6 percent?

Mr. WOLOSOFF. Well, let us say I had 2, 3, or 4 people doing that job, but I didn't designate——

Mr. SIMON. Doing what job?

Mr. WOLOSOFF. The architect's job.

Mr. SIMON. What were the architect's fees that you paid to the 2, 3, or 4 people?

Mr. WOLOSOFF. Well, it would be very hard to separate the sums of money that were paid to people that work for us when they did——

Mr. SIMON. You don't pay fees to people who work for you?

Mr. WOLOSOFF. Well, salaries—let's call it a sum of money.

Mr. SIMON. But this said what was the architect's fee going to be?

Mr. WOLOSOFF. Well, it was money paid out, sir. Whether it was paid to the architect or somebody to do his work, it's still an architect's fee.

Mr. SIMON. I'm afraid I don't agree to that. Architect's fees are paid to architects.

Mr. WOLOSOFF. Well, I think that you and I would have to differ on that.

Mr. SIMON. Well, thank you.

Senator BUSH. I'd like to just ask one question, going back a little bit, Mr. Wolosoff. You said that the corporation declared a dividend of approximately \$500,000 at one point after the building was completed; is that correct?

Mr. WOLOSOFF. That is correct.

Senator BUSH. That's correct. Who got that dividend?

Mr. WOLOSOFF. Alvin B. Wolosoff and Morty Wolosoff.

Senator BUSH. The two of you?

Mr. WOLOSOFF. And FHA got their——

Senator BUSH. And how much of it did you get? Do you remember?

Mr. WOLOSOFF. I got half.

Senator BUSH. You got half of it?

Mr. WOLOSOFF. That's right.

Senator BUSH. Did you declare that—what year did you get that?

Mr. WOLOSOFF. I believe it was 1950.

Senator BUSH. In 1950. Did you declare that as income in 1950, dividend income? In your tax return?

Mr. WOLOSOFF. I reported it in my 1950.

Senator BUSH. You reported dividends from that particular source of \$250,000? Cash dividend?

Mr. LOWETT. It's reported as a dividend, but the dividend is treated according to law as a return of capital, and that's the way it appeared on the return.

Mr. SIMON. You say according to law; the Director of Internal Revenue doesn't agree, you know.

Mr. LOWETT. They did agree at one time.

Mr. SIMON. The former collector might have agreed but the present Collector of Internal Revenue takes the position that's ordinary income.

Senator BUSH. Well, how was it declared?

Mr. LOWETT. Just that way.

Senator BUSH. As a return of capital?

Mr. LOWETT. The corporation declared a dividend. The board of directors authorized the dividend and it was paid to the stockholders as a dividend. They reported on their returns in accordance with the interpretation of the income-tax laws.

Senator BUSH. How much capital did you put into the proposition originally? Capital.

Mr. WOLOSOFF. All together? Over 400—

Senator BUSH. Capital.

Mr. WOLOSOFF. You mean for capital stock?

Senator BUSH. Yes.

Mr. WOLOSOFF. \$3,000.

Senator BUSH. \$3,000. So you declared then a dividend of return of capital of \$500,000; is that right? Is that what you did?

Mr. WOLOSOFF. Well, that sounds very good if I were sitting on that side of the desk, sir.

Senator BUSH. That isn't what I asked you. I asked you whether you did put in \$3,000 of capital and then after the building was completed you immediately declared out \$500,000 of capital?

Mr. WOLOSOFF. Well all I know is what I risk—

Senator BUSH. Just is that what you did?

Mr. WOLOSOFF. Senator, why can't we look at this thing—

Senator BUSH. We can look at it after you answer the question.

Mr. WOLOSOFF. Yes.

Senator BUSH. That's what you did.

Mr. WOLOSOFF. Can we look at it my way now?

Senator BUSH. Just a moment. Did your income tax return show a declaration of a return of capital of \$250,000 or approximately that?

Mr. LOWETT. The form is printed in a certain way and the transaction was reported according to the method of reporting this type of transaction. It's stated as a distribution by a corporation.

Senator BUSH. The dividend declaration, the dividend receipt by you as a taxpayer was shown in the income tax return then at \$250,000 as a return of capital; is that right?

Mr. LOWETT. It was stated on the return: "Distribution by Alley Pond Corp., so much; cost of stock applied, so much; net difference, income." That is treated as capital gain on the tax return.

Senator BUSH. Now you wanted to make some statement in connection with my questioning, Mr. Wolosoff? Did you want to amplify your position? Did you wish to make any statement in this connection?

Mr. WOLOSOFF. Yes. You keep talking about \$3,000 being the capital. To me the whole thing was risk capital and that was close to—

Mr. SIMON. Why didn't you put the the whole thing in as capital then instead of a loan? Why didn't you have a \$400,000 capital stock in the company?

Mr. WOLOSOFF. What difference does it make?

Mr. SIMON. I'm asking you why you didn't do it that way. You must have thought it made a difference.

Mr. WOLOSOFF. Well, actually, while I have to take the responsibility for it, I don't do it. I hire people to figure out the best way to handle my books and that is the way it was done.

Mr. SIMON. There must have been some reason, Mr. Wolosoff.

Mr. WOLOSOFF. It has always been our practice in the real estate business to capitalize these corporations for a minimum.

Mr. SIMON. Well the \$400,000 you loaned, you anticipated the loan would be paid back, didn't you?

Mr. WOLOSOFF. Well it's better to have it as a loan on the books than capital on the books, wouldn't you say?

Mr. SIMON. Why?

Mr. WOLOSOFF. Well, I'd rather somebody owe it to me than do me out of it.

Mr. SIMON. But it's your company; isn't it?

Mr. WOLOSOFF. That's right.

Mr. SIMON. I don't understand why you loaned the money to the company instead of putting it in stock, unless you contemplated the loan was going to be paid back out of this mortgage commitment you had in your pocket.

Mr. WOLOSOFF. There was a chance it could be paid back and I'd rather have it as a loan.

Mr. SIMON. Because you contemplated it would be paid back out of the mortgage commitment?

Mr. WOLOSOFF. I think you're drawing a fast conclusion over there.

Mr. SIMON. I'm asking you.

Mr. WOLOSOFF. No. I felt that I would rather have it as a loan than as capital stock. It was our business practice prior to this job and it was permissible in this job and so we continued to do it.

Now when we built one-family houses we capitalized the corporation for—I don't know, a thousand, \$2,000, \$5,000, whatever it was, and we'd lend it all kinds of money and we never had any comment on it before.

Mr. SIMON. But you made this loan to the company only after FIA had given you the \$4 million commitment; is that right?

Mr. WOLOSOFF. Well, there was no need to lend the company any money if there wasn't going to be any job.

Mr. SIMON. And you're saying there wouldn't be any job unless FHA gave you the commitment; is that right?

Mr. WOLOSOFF. That's right.

Mr. SIMON. Thank you.

Mr. KENNEY. You received the sum of \$437,000 and you chose to call that a distribution rather than a profit on the enterprise; is that right? Was there a tax angle involved in that?

Mr. LOWETT. There is no way of showing it as a profit in the corporation in this particular situation; borrowed money exceeds cost and the only profit, as you call it—the corporation has no profit.

Mr. KENNEY. It's excess mortgage.

Mr. LOWETT. If no cash is distributed or nothing distributed to the stockholders there's no corporate profit. If nothing at all is paid to the stockholders the money is left in the corporation; there is no profit to anyone. It only becomes profit when it's paid out to someone in tax; that's how these things came about.

Mr. KENNEY. Do you still own the property?

Mr. WOLOSOFF. That is correct.

Mr. KENNEY. Are you retaining it for investment purposes?

Mr. WOLOSOFF. It is my honest opinion these buildings will get better as years go on.

Mr. KENNEY. Are they showing a profit today?

Mr. WOLOSOFF. Not much.

Mr. KENNEY. How much?

Mr. WOLOSOFF. Very nominal.

Mr. KENNEY. Is that after depreciation?

Mr. WOLOSOFF. Yes—well, the amortization.

Senator BUSH. And depreciation.

Mr. WOLOSOFF. And depreciation.

Mr. KENNEY. And you've been paying on the mortgage how long?

Mr. WOLOSOFF. I would judge it's about 4 or 5 years now.

Mr. KENNEY. About how much of the mortgage is amortized?

Mr. WOLOSOFF. Well, we met every payment.

Senator BUSH. You're current?

Mr. WOLOSOFF. We are current.

Mr. KENNEY. Have you repaid the \$437,000 excess mortgage? Have you repaid that much?

Mr. WOLOSOFF. I don't understand.

Mr. KENNEY. Have you repaid as much as \$437,000, which was the excess mortgage?

Mr. WOLOSOFF. Repaid to whom?

Mr. KENNEY. To the mortgagee.

Mr. WOLOSOFF. My accountant advises me we can't be too far away.

Mr. KENNEY. What was your figure? Can you give us a figure?

Mr. LOWETT. I would have to figure it out.

Mr. WOLOSOFF. It amounts to about 2 percent of the mortgage per year.

Mr. KENNEY. That would be 10 percent for 5 years; 10 percent of the mortgage of \$4 million?

Mr. WOLOSOFF. \$400,000.

Mr. KENNEY. \$400,000 return; is that right?

Mr. LOWETT. In addition to that don't forget the replacement fund which is accumulating and is a substantial figure today.

Mr. WOLOSOFF. That runs about \$18,000 a year for this particular job and that really piles up; in 5 years you realize you have \$90,000 sitting there doing nothing.

Mr. LOWETT. About \$63,000 right now.

Mr. KENNEY. You mentioned that the FHA asked for housing. Will you tell us something about how they asked for housing?

Mr. WOLOSOFF. Well, going back to the early days of section 608—there were—I don't happen to have a pamphlet but there was a pamphlet at the time telling you what a wonderful way you could work this thing out and they were going to be so cooperative and there was such a terrific need for housing.

Senator BUSH. Did they hold meetings in the area here inviting contractors and builders such as yourself to explain the advantages of building under section 608?

Mr. WOLOSOFF. I remember talk of it. I know I never attended such a meeting.

See, we have our offices in an FHA project, an old section 207 we built back in 1940, and the boys from FHA used to stop by for their inspections and they would stop in and chin, and they always mentioned, "Why don't you go in and build these section 608's?" We were a little bit sour on the old section 207; we didn't have a happy experience with it. They said, "This section 608 does not have all the things you disliked about section 207."

They got talking about it and of course you are always looking for a new deal, so we delved into it.

Senator BUSH. They were pointing out the advantages of doing business under section 608; is that right?

Mr. WOLOSOFF. That's right.

Senator BUSH. And outlined to you if you went ahead with this type of project you could come out with this kind of a result, or approximately that?

Mr. WOLOSOFF. Well, I don't know what results we—

Senator BUSH. Did they say to you if you went ahead under the section 608 project you could probably mortgage out, get all your money out and still own the building?

Mr. WOLOSOFF. I don't remember what advantages were mentioned at that time but they must have been pretty good if we went into it.

Senator BUSH. I'll say so.

You started to say that section 608 sort of stimulated your interest in this but you don't tell us very accurately what they did to stimulate it. You're very general in that. We have had other witnesses who indicated the FHA agents were rather persuasive, that this was a pretty profitable venture to go into, a section 608 project.

Mr. WOLOSOFF. Well in retrospect you find that you really shouldn't have been so enthused about it because you never could get an accurate figure of what these jobs were going to cost you because you estimated what the buildings were going to cost you without something to estimate with.

Now if you were going to build a conventional building today you would go to your architect and he'd draw you a set of plans. They would be complete; a set of specifications; and you could take those

plans and send them out and get approximate figures if not exact figures of what that building was going to cost you so that when you sat down and said, "Well, shall I go ahead or shouldn't I?" you know in advance. We never knew in advance. We had to use rule-of-thumb and you know that can get pretty sloppy at times.

Mr. KENNEY. Did the FHA indicate to you that you should charge 5 percent for the architect's fee and builder's fee?

Mr. WOLOSOFF. That was practice, sir.

Mr. KENNEY. Practice in the industry?

Mr. WOLOSOFF. It was practice in the industry. As a matter of fact, the typewritten numbers on that application, while I must take the responsibility for it, having signed it, was filled out by the mortgage broker. We indicated to him that we would go ahead with the job and make the necessary application and they did most of that.

I can honestly say that at the time I did not spend too much time studying this allocation.

Mr. KENNEY. In your experience is it unusual to mortgage out in cases other than Government-insured cases?

Mr. WOLOSOFF. Oh, no, that can happen.

Mr. KENNEY. Does it happen frequently?

Mr. WOLOSOFF. Well it can happen in a case where you have a piece of land let us say for 5 or 6 years and you put a building on it, and they put the appreciated value of the land, they take that into consideration when they place the mortgage and in that event you can mortgage out.

I could show you an experience at the time that this land was purchased. This land was purchased in 1944. I purchased a piece of land on Queens Boulevard in about 1940 which I paid 60 cents a foot for. I later sold that piece about 1947 or 1948 to Bulova Watch for \$4 a foot; so there's nothing unusual in these land values jumping like this. When demand gets there and there's a need for buildings on certain pieces of land the increment jumps, and I don't think—again I'm not defending FHA—I don't think they went haywire, especially in my case when they gave me that figure on the land.

As far as I'm concerned I never figured the land at 4-percent capitalization; I'd like to bring that out, too, because the recapture clause says seven-hundred-thousand-some-odd dollars. To me that value was \$500,000 because I capitalize land at 6 percent not at 4 percent.

Mr. KENNEY. Do you build single-family houses today?

Mr. WOLOSOFF. Not today, sir.

Mr. KENNEY. Have you in the past?

Mr. WOLOSOFF. Yes, sir.

Mr. KENNEY. FHA and VA?

Mr. WOLOSOFF. Not VA—FHA.

Mr. KENNEY. Is it customary to mortgage out in the case of the single-family houses?

Mr. WOLOSOFF. It wasn't when we were building. When we were building I think—

Mr. KENNEY. What was your cost in excess of the mortgage?

Mr. WOLOSOFF. It's a little hard to figure. As I said before, if you made 10 percent on your gross for a year you were doing pretty good; and in those days they used to have to put 20 percent, so that would show the mortgage did not exceed the cost of construction.

Mr. KENNEY. That's all.

Senator BUSH. That's all this morning, Mr. Wolosoff. Thank you very much.

Senator BUSH. Mr. Alfred Wohl.

Do you solemnly swear that the testimony you will give to the committee today will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. WOHL. I do.

Mr. WINN. Do we have the same understanding as to pictures that we had before?

Senator BUSH. Yes.

TESTIMONY OF ALFRED WOHL, KEW TERRACE APARTMENTS, FLUSHING, N. Y., ETC., ACCOMPANIED BY ROBERT H. WINN, COUNSEL

Mr. SIMON. Will you give the reporter your name and address?

Mr. WOHL. My name is Alfred Wohl, and my home address is 145 Deer Path, Roslyn, Long Island.

Mr. SIMON. Are you sponsor of the Kew Terrace project?

Mr. WOHL. Yes; I was.

Mr. SIMON. There were two corporations, were there not, Kew Terrace and Kew Terrace No. 2?

Mr. WOHL. Kew Terrace, Inc.

Mr. SIMON. What was the capital stock of each of those companies?

Mr. WOHL. The capital stock of each one of the companies was \$3,000.

Mr. SIMON. Three thousand dollars in each, or a total of \$6,000?

Mr. WOHL. A total of \$6,000.

Mr. SIMON. You owned how much of it?

Mr. WOHL. I owned one-sixth.

Mr. SIMON. Who held the other five-sixths?

Mr. WOHL. The other one-third was owned by Mr. Morris Breacher and his three sisters, and one-third was owned by Mr. Charles K. Itchkow, and his wife and son, and the other one-sixth was owned by my brother, Arthur Wohl.

Mr. SIMON. What was the amount of the mortgage on each of the corporations?

Mr. WOHL. On Kew Terrace, Inc., the mortgage was \$1,769,000, and on Kew Terrace No. 2 Corp. the mortgage was \$1,236,800, making a total of the two mortgages of \$3,005,800.

Mr. SIMON. What was the cost of construction of No. 1?

Mr. WOHL. The cost of construction was—

Mr. SIMON. Was it \$1,456,358.67?

Mr. WOHL. That is correct. That was the cost of construction.

Mr. SIMON. That didn't include the land?

Mr. WOHL. No; that did not include the land.

Mr. SIMON. What was the cost of the land?

Mr. WOHL. The cost of the land was \$128,914.35.

Mr. SIMON. That would be a total cost of \$1,585,273.02?

Mr. WOHL. That is correct.

Mr. SIMON. What was the premium on the mortgage?

Mr. WOHL. The premium on the mortgage was, on section 1, \$61,815.

Mr. SIMON. What was the cost on No. 2?

Mr. WOHL. On No. 2 the cost was \$1,005,887.43.

Mr. SIMON. That did not include the land?

Mr. WOHL. Exclusive of the land.

Mr. SIMON. What was the cost of the land?

Mr. WOHL. \$83,808.96.

Mr. SIMON. Is that a total cost of \$1,089,696.39?

Mr. WOHL. That is correct.

Mr. SIMON. What was the premium on No. 2?

Mr. WOHL. The premium on No. 2 was \$43,288.

Mr. SIMON. And the mortgage proceeds exceeded the cost on No. 1 by \$244,641; is that right?

Mr. WOHL. No. The difference between the mortgage—

Mr. SIMON. I said the mortgage proceeds, excuse me.

Mr. WOHL. Would you repeat the question?

Mr. SIMON. The difference between the mortgage proceeds and the cost on No. 1 was \$244,641?

Mr. WOHL. The difference was \$183,726.98 in costs.

Mr. SIMON. And you had a \$61,915 premium? Don't you get the figure I mentioned if you add the two?

Mr. WOHL. I don't have it here, but if you have added it, I guess that is correct.

Mr. SIMON. \$183,726 and \$61,915 equals \$244,641.

Mr. WOHL. I guess that is correct. I have not added the two together.

Mr. SIMON. On No. 2 was the difference between the cost and the mortgage \$147,103?

Mr. WOHL. And 61 cents; yes.

Mr. SIMON. And the premium was \$43,288?

Mr. WOHL. That is correct.

Mr. SIMON. And the total of that is \$190,391?

Mr. WOHL. That is correct.

Mr. SIMON. And that plus the \$244,641 on section 1 makes a total of \$434,932, by which the mortgage proceeds, including premium, exceeded the cost; is that right?

Mr. WOHL. That is correct.

Mr. SIMON. Now, who did Kew Terrace buy the land from?

Mr. WOHL. Kew Terrace bought the land from a corporation called Kew Knolls, Inc.

Mr. SIMON. Who are the stockholders of Kew Knolls?

Mr. WOHL. The stockholders of Kew Knolls, Inc., were the same as the stockholders of Kew Terrace.

Mr. SIMON. What did they pay for the land?

Mr. WOHL. Kew Knolls paid—you are asking what Kew Knolls paid for the land?

Mr. SIMON. That is correct.

Mr. WOHL. Kew Knolls bought this land, in addition to some other land, for the same price as it was turned over to Kew Terrace.

Mr. SIMON. In other words, there was no profit on the sale there?

Mr. WOHL. None. Some of the land was initially used by Kew Knolls, Inc., to build some one-family houses. The part that this project was built on was sold to Kew Terrace, Inc., at cost.

Mr. SIMON. And by "cost" you mean its proportionate share of the cost of the total tract?

Mr. WOHL. That is correct.

Mr. SIMON. After the buildings were built, did you go through the process we described a minute ago of hiring an appraiser to give you an appraisal and then having the directors pass a resolution increasing the value of the building and then paying out some dividends?

Mr. WOHL. We didn't follow exactly that procedure. We did, by vote of the board of directors, reappraise the property based on the figure that the FHA used as the replacement cost.

Mr. SIMON. Was the purpose of writing up the cost by that amount so that you could pay out the excess mortgage proceeds as a dividend?

Mr. WOHL. That was one of the purposes, yes, I would say so, because no dividends would be paid unless there was a surplus.

Mr. SIMON. And I take it, in advance of paying out this dividend, you reimbursed yourselves for any loans or advances that you made to the company?

Mr. WOHL. Yes, sir; we did.

Mr. SIMON. Then on your \$6,000 investment did you pay dividends totaling \$577,000?

Mr. WOHL. I just want to check the figure. I have it written down. If you like I can give it to you.

Mr. SIMON. Maybe I can expedite it. On section 1 you first paid a dividend of \$270,000?

Mr. WOHL. On January 27, 1950; that is correct.

Mr. SIMON. And then on August 17, 1951, you paid a dividend of \$58,000?

Mr. WOHL. That is correct.

Mr. SIMON. And on February 20, 1950, you paid a dividend of \$192,000 on section 2?

Mr. WOHL. That is correct.

Mr. SIMON. And on August 17, 1951, a dividend of \$35,000 on section 2?

Mr. WOHL. That is correct.

Mr. SIMON. And then just before you sold the property you paid a dividend of \$22,108.95 on section 2?

Mr. WOHL. That was a distribution as part of the sale; that is correct.

Mr. SIMON. The total dividends are \$270,000, \$58,000, \$192,000, \$35,000, and \$22,000; is that right?

Mr. WOHL. I think you neglected to mention 1 dividend of \$4,237.52 which was made as part of this sale on section 1.

Mr. SIMON. That would increase the total to \$581,000 instead of \$577,000 I gave; is that correct?

Mr. WOHL. That is correct.

Mr. SIMON. Then you sold the property for \$200,000; is that right?

Mr. WOHL. We sold the property, the first section, for \$110,000. That is the Kew Terrace, Inc., stock. The Kew Terrace No. 2 for \$90,000, making your total.

Mr. SIMON. When was the sale?

Mr. WOHL. Kew Terrace, Inc., the first section was sold February 25, 1953. Kew Terrace No. 2 Corp. was sold on August 31, 1953.

Mr. SIMON. Mr. Wohl, have real-estate values gone up any between 1953 and 1953?

Mr. WOHL. Between 1950 and 1953?

Mr. SIMON. Yes.

Mr. WOHL. I would say so; yes.

Mr. SIMON. Did they go up?

Mr. WOHL. Yes.

Mr. SIMON. I am intrigued by the fact that in spite of building values going up between 1950 and 1953, that this building which you built in 1950 and you sold in 1953, you only got \$200,000 for selling your entire interest in the building, and yet you were able to make a half a million dollars out of the mortgage. Does that mean that the profit in these buildings is not in owning them or operating them or selling them, but the profit is in getting some money out of the mortgage?

Mr. WOHL. I wouldn't say so; no.

Mr. SIMON. It certainly was true in your case, wasn't it?

Mr. WOHL. Well, we did get some money out of the mortgage.

Mr. SIMON. You got 2½ times as much money out of the mortgage as you were able to get for the whole thing.

Mr. WOHL. Yes, by the same token, the fact that a real-estate investor was willing to pay \$200,000 for the equity in this property is a perfect indication that it is a good, sound project, regardless of the amount of the mortgage.

Mr. SIMON. You said a minute ago that we have had increased values between 1950 and 1953.

Mr. WOHL. But there has been no increase in rentals in these properties.

Mr. SIMON. In spite of the increase in values in those 3 years when you sold it in 1953, this property which has a \$2½ million mortgage on it, a \$3 million mortgage on it?

Mr. WOHL. Yes.

Mr. SIMON. And all the purchaser would pay you for it was \$200,000, subject to the mortgage, of course; is that right?

Mr. WOHL. Yes, that is correct.

Mr. SIMON. And you had already received approximately half a million dollars out of the mortgage proceeds?

Mr. WOHL. Well, out of the mortgage proceeds and the mortgage premium.

Mr. SIMON. Yes.

Mr. WOHL. And I might add also partially out of income from rents.

Mr. SIMON. At any rate, after repaying whatever loans you made to get this thing started, which were repaid out of the mortgage, your \$6,000 capital stock investment brought you a total of \$787,000; is that right?

Mr. WOHL. Well, I guess you are probably tired of hearing it, Mr. Simon, but in addition to our capital investment, of course, I must call to your attention the fact that we had a great deal of money invested in the property which was put in these loans.

Mr. SIMON. Isn't a loan something different than an investment?

Mr. WOHL. Well, technically I suppose it is, but—

Mr. SIMON. When you borrow money from the bank, the bank loans you money?

Mr. WOHL. Yes.

Mr. SIMON. Do you think the bank has an investment in your property?

Mr. WOHL. No; but the stockholders risk the same as they do when they put in their capital stock.

Mr. SIMON. The loans you made were made after you had an FHA commitment?

Mr. WOHL. Not in its entirety. The loans were made partially when we had to purchase the land.

Senator BUSH. When you put these loans into the building operation, did you borrow the money from the bank to do that?

Mr. WOHL. I beg your pardon, Senator, would you repeat that?

Senator BUSH. Yes. You financed the construction by construction loans; is that so?

Mr. WOHL. We financed by construction loans; yes.

Senator BUSH. You borrowed money from the bank, working capital for the construction loans; is that not so?

Mr. WOHL. We borrowed some money from the bank and put some money in ourselves.

Senator BUSH. Were you able to give the bank any assurance, or did the FHA give the bank any assurance that they were behind you in this matter? In other words, were they lending you solely on your credit, or did they have the FHA credit in some way on this construction loan?

Mr. WOHL. No, sir; the credit of the FHA or the FHA guaranty pertains solely to the mortgage. Any amounts of money that we borrow from a bank was loaned to us solely on our own credit, sir.

Senator BUSH. Did the bank know when they were lending you this working capital money for the construction loan that you had a commitment from the FHA that would enable you to mortgage out?

Mr. WOHL. The bank knew everything about why we were wanting to borrow the money. They knew that we had a commitment, that we owned the land, that we had this money invested in the land.

Senator BUSH. Did they know that you had a commitment from the FHA which would enable you to mortgage out?

Mr. WOHL. No, sir; I would say they didn't know. I didn't know that myself.

Mr. SIMON. I take it you hoped you would mortgage out, didn't you?

Mr. WOHL. Oh, sure, I hoped so.

Mr. SIMON. In any event, after the mortgage proceeds had repaid every loan that you had ever made, you then had a \$6,000 capital stock investment on which you received \$781,000; is that right?

Mr. WOHL. Well—

Mr. SIMON. Is that right, Mr. Wohl?

Mr. WOHL. If you will rephrase it, I will answer you that it is correct. Would you repeat the question, Mr. Simon?

Mr. SIMON. I will make it in three questions. Out of the mortgage proceeds you repaid all the loans that you had made to the corporation; is that right?

Mr. WOHL. Yes, sir.

Mr. SIMON. After that, regardless of what you called the loans, you then had a \$6,000 capital stock investment in the corporations; is that right?

Mr. WOHL. Yes, sir.

Mr. SIMON. And you received on that investment \$581,000 in dividends and \$200,000 on the sale of the stock, or a total of \$781,000; is that right?

Mr. WOHL. Well, that total was received for the capital stock.

Mr. SIMON. Well, the \$581,000 was received in dividends and the \$200,000 for the capital stock, or a total of \$781,000?

Mr. WOHL. That is correct.

Mr. SIMON. Thank you, sir.

Senator BUSH. Any questions?

Mr. KENNEY. No.

Senator BUSH. That is all. Thank you very much, Mr. Wohl.

Mr. WOHL. Thank you, sir.

Senator BUSH. Mr. Jerome Brett.

Mr. Brett, will you raise your right hand, please? Do you solemnly swear that the testimony you will give before this committee this morning will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF JEROME BRETT, EAST ORANGE, N. J., ACCOMPANIED
BY CHARLES BLUME, COUNSEL**

Mr. BRETT. Yes.

Senator BUSH. Will you give the clerk your correct name and address, please?

Mr. BRETT. Jerome Brett, 125 Prospect Street, East Orange, N. J.

Senator BUSH. Mr. Hogue, will you question the witness?

Mr. HOGUE. Mr. Brett, what is your present occupation?

Mr. BRETT. Salesman.

Mr. HOGUE. For what company?

Mr. BRETT. Bondstone Corp. of New Jersey.

Mr. HOGUE. What is the business of that company?

Mr. BRETT. Home improvements.

Mr. HOGUE. What type of home improvements does that consist of?

Mr. BRETT. All types.

Mr. HOGUE. Do you apply mastic paint?

Mr. BRETT. No, sir.

Mr. HOGUE. Do you put on sidings?

Mr. BRETT. Yes, sir.

Mr. HOGUE. Do you apply Bondstone?

Mr. BRETT. Yes, sir.

Mr. HOGUE. Were you ever connected with the Pioneer Home Improvement Co.?

Mr. BRETT. Yes, sir.

Mr. HOGUE. During what period of time?

Mr. BRETT. From 1941 until 1952.

Mr. HOGUE. Were you ever president of that company?

Mr. BRETT. Yes, sir.

Mr. HOGUE. What period of time?

Mr. BRETT. During the entire period.

Mr. HOGUE. Did that company ever procure work under title 1 of the Housing Act?

Mr. BRETT. Yes, sir.

Mr. HOGUE. And were your salesmen furnished with a regular form of papers on title 1 matters; that is, the application for the loan?

Mr. BRETT. Yes, sir.

Mr. HOGUE. And what other papers were they furnished, a contract form?

Mr. BRETT. Contract form.

Mr. HOGUE. A credit statement?

Mr. BRETT. Yes, sir.

Mr. HOGUE. And were they also furnished with the certificate of completion?

Mr. BRETT. They might have been. I don't recall. I don't think so.

Mr. HOGUE. You don't think so?

Mr. BRETT. No.

Mr. HOGUE. How was the certificate of completion taken care of when the job was finished?

Mr. BRETT. The mechanic gets the homeowner to sign it.

Mr. HOGUE. As I understand it, when the salesman went out to these homeowners they would get them to sign a contract; is that correct, for the various types of repairs?

Mr. BRETT. Yes, sir.

Mr. HOGUE. What was the type of business that the Pioneer Home Improvement Co. was in?

Mr. BRETT. All types of home improvements.

Mr. HOGUE. Were they also in the mastic paint field, painting houses?

Mr. BRETT. Yes, sir.

Mr. HOGUE. At the time the contract was signed, was the credit application secured?

Mr. BRETT. In some cases; yes.

Mr. HOGUE. Were no credit applications secured in any cases?

Mr. BRETT. I believe the credit application was secured in all cases.

Mr. HOGUE. A note was signed?

Mr. BRETT. I believe so.

Mr. HOGUE. The procedure, as I understand it, was for those notes to be taken to a lending institution which was approved by the FHA, and there discounted and you got your money, your company got the money from the lending institution?

Mr. BRETT. Yes, sir.

Mr. HOGUE. What lending institution did you use?

Mr. BRETT. During what period?

Mr. HOGUE. During the period say, of 1950, 1951?

Mr. BRETT. I believe the New Jersey Mortgage & Title.

Mr. HOGUE. Grammatan Bank?

Mr. BRETT. I don't think so.

Mr. HOGUE. Did any of your salesmen ever procure contracts signed in blank?

Mr. BRETT. Not to my knowledge.

Mr. HOGUE. Did they ever secure credit applications signed in blank?

Mr. BRETT. Yes, they could have.

Mr. HOGUE. They could have?

Mr. BRETT. Yes.

Mr. HOGUE. Did that happen frequently?

Mr. BRETT. That, I can't answer. I don't know.

Mr. HOGUE. Did they secure notes signed in blank from the homeowner?

Mr. BRETT. They did.

Mr. HOGUE. Was that a frequent occurrence?

Mr. BRETT. How frequent I don't know. It did happen.

Mr. HOGUE. How long a period of time elapsed between the procuring of a contract and the doing of the work on the house, in most cases?

Mr. BRETT. Whenever the work was completed.

Mr. HOGUE. No; you misunderstood my question. Your salesman would come in with a contract. Would it take a period of a week or 10 days before the work was done on the house, or a longer period of time?

Mr. BRETT. It is a confusing question, sir. You mean before the work was started?

Mr. HOGUE. Yes; that is right.

Mr. BRETT. The work would be started whenever we could get to it. It could be a day, it could be 2 days, it could be 3 or 4 days.

Mr. HOGUE. What was the average?

Mr. BRETT. That was hard to say.

Mr. HOGUE. Would the average be about a week?

Mr. BRETT. I think less.

Mr. HOGUE. Less than a week?

Mr. BRETT. Are you talking about the starting of the work?

Mr. HOGUE. That is correct. How long would it take for the work to be completed?

Mr. BRETT. That depended on the type of work, what work was to be done.

Mr. HOGUE. Was that work sometimes done in a single day?

Mr. BRETT. Possibly.

Mr. HOGUE. And sometimes it would take a longer period of time?

Mr. BRETT. Yes, sir.

Mr. HOGUE. Do you know whether any of your salesmen ever secured a certificate of completion at the time when the contract was signed by the customer?

Mr. BRETT. It might have happened.

Mr. HOGUE. Do you know whether it happened frequently?

Mr. BRETT. No, sir.

Mr. HOGUE. Do you have any recollection of any specific instance?

Mr. BRETT. No, sir.

Mr. HOGUE. Are you familiar with the job for James Ryan that was done in 1950?

Mr. BRETT. I don't believe so.

Mr. HOGUE. You have no recollection of it at all?

Mr. BRETT. No.

Mr. HOGUE. Let me show you these papers. Is that a record supplied by you to us, a photostat of a record?

Mr. BRETT. Did I give you this record?

Mr. HOGUE. Yes; you did give it to us.

Mr. BRETT. Not that I know of.

Mr. HOGUE. What date does it show on that paper the contract was obtained?

Mr. BRETT. 10-27-1950.

Mr. HOGUE. Now, I show you another form of paper, which is a photostat of a notification, of the New Jersey Mortgage & Investment Co., of approval of a paper for discount. Will you read the date on that paper?

Mr. BRETT. 10-30-1950.

Mr. HOGUE. What was the date on the first paper?

Mr. BRETT. 10-27-1950.

Mr. HOGUE. Can you tell me whether or not that credit application was procured before the job was done?

Mr. BRETT. That I couldn't say.

Mr. HOGUE. Do you know in that instance whether the job was satisfactorily performed?

Mr. BRETT. To the best of my recollection, I imagine it was.

Mr. HOGUE. I hold in my hand a photostat of a letter from Mr. Ryan to the New Jersey Mortgage Investment Co., dated December 27, 1950, in which he complains that the work has not been satisfactorily performed. Do you have any recollection as to that?

Mr. BRETT. No, sir.

Mr. HOGUE. None whatsoever?

Mr. BRETT. I don't recall the specific instance of it.

Mr. HOGUE. Isn't it true, as a matter of fact, that it was fairly frequently the salesmen who were employed by Pioneer Home Improvement Co. obtained signatures to completion certificates before the jobs were even commenced?

Mr. BRETT. I think I answered that previously, sir.

Mr. HOGUE. Can you tell me your answer again?

Mr. BRETT. The same answer.

Mr. HOGUE. What is that?

Mr. BRETT. It might have been.

Mr. HOGUE. Don't you know that it happened in a number of cases?

Mr. BRETT. In specific cases; no.

Mr. HOGUE. You didn't answer my question. Don't you know that it happened a number of times?

Mr. BRETT. It is possible it could have.

Mr. HOGUE. Do you realize that you received many complaints of that happening?

Mr. BRETT. No, sir.

Mr. HOGUE. You did not?

Mr. BRETT. No, sir.

Mr. HOGUE. But it has happened a number of times?

Mr. BRETT. I guess it has happened on occasion. However, before we would cash in any deal the mechanic would have to bring in a completion slip before the mechanic could get paid for doing the work on the job, and that is the completion slip that we used to cash in the deal.

Mr. HOGUE. Are you familiar with the case of Henry C. Pier?

Mr. BRETT. No, sir.

Mr. HOGUE. Who entered into a contract with your company?

Mr. BRETT. May I make this statement, sir? We did thousands of jobs during this time, and I was not familiar with the details of every job. I am not trying to evade any questions. I am trying to answer them truthfully, but when you call my attention to one specific job, I can honestly say that I don't recall it, because we handled so many of them.

Mr. HOGUE. I call your attention to the case of Henry C. Pier, who entered into a contract with your company on October 10, 1950. On that same date he signed, in blank, a note which was discounted by you. He also signed a completion certificate on the same date. The completion certificate is dated October 11, 1950. The contract is dated October 11, 1950.

How can you explain that occurrence?

Mr. BLUME. Just a moment, please. Are you assuming that this was signed in blank?

Mr. HOGUE. I have here in my hands a completion certificate entitled "FHA Title 1 Completion Certificate," which was signed by Mr. Pier. I will show it to you.

Mr. BLUME. I repeat my statement that I made before. Was this supposed to have been signed in blank?

Mr. HOGUE. It is, is it not?

Mr. BLUME. I disagree.

Senator BUSH. On what basis do you disagree with that, counsel?

Mr. BLUME. I don't see what is to be filled in other than what is already on there.

Mr. HOGUE. I refer to the date of the application. Do you have any explanation of the notation that appears on this, "This is no release from my note"?

Mr. BRETT. What is the notation?

Mr. HOGUE. "This is no release from my note."

Mr. BRETT. I don't believe it says that.

Mr. HOGUE. I will show it to you.

Mr. BLUME. You read it differently before.

Mr. BRETT. I am sorry, sir, you are right. I am wrong.

Mr. HOGUE. I show you a file dealing with a contract with John Gordes. The contract which I have in my hand was signed on November 15, 1950. I will turn these papers over to you in just a moment. New Jersey Mortgage & Investment Co. issued a notice that the application for financing had been approved on November 15, 1950. I show you the papers.

Do you find there the notice from the New Jersey Mortgage & Investment Co.?

Mr. BRETT. I am looking for it, sir.

Mr. HOGUE. It is one of the last papers, a small paper.

Mr. BLUME. Are you referring to all these matters being FHA?

Mr. HOGUE. Yes.

Mr. BLUME. This is not an FHA matter.

Mr. HOGUE. How do the papers indicate that?

Mr. BRETT. Special form.

Mr. HOGUE. Will you look at the papers and tell me whether or not there is an FHA application signed in blank?

Mr. BRETT. There is.

Mr. HOGUE. Are there any other FHA papers included in that file?

Mr. BRETT. There is.

Mr. HOGUE. You say it was not an FHA matter?

Mr. BRETT. Not according to the approval.

Mr. HOGUE. Would the customer have been advised if it was not an FHA matter?

Mr. BRETT. That, I couldn't say.

Mr. HOGUE. Don't those papers indicate to you that the customer did not intend it to be financed under the FHA plan, but nevertheless the papers were signed in blank?

Mr. BRETT. I couldn't answer that, sir.

Mr. HOGUE. Don't they indicate that to you?

Mr. BRETT. No, sir.

Mr. HOGUE. What was the purpose of obtaining the signature to the FHA application and notes, if it was not an FHA matter?

Mr. BRETT. It could be that perhaps the New Jersey Mortgage might want to accept it under FHA, or under a special plan.

Mr. HOGUE. But they are all signed in blank, including the FHA papers.

Mr. BLUME. Now, counsel, I disagree.

Mr. HOGUE. I beg your pardon, the FHA papers are signed in blank, are they not?

Mr. BRETT. However, the contract is filled in in its entirety.

Mr. HOGUE. The contract is, but the other papers, the title 1 and finance—

Mr. BLUME. I wish the witness to read the price on that contract.

Mr. BRETT. \$815, deposit received \$100; \$715 to be paid in the following manner, \$26.83 per month for 30 consecutive months, beginning 45 days after completion of work.

Mr. HOGUE. What is your point, counsel?

Mr. BLUME. The point is, it does not make any difference whether it is FHA or anybody else. That is what he agreed to pay.

Mr. HOGUE. Did you know of any instance in which a customer of the Pioneer Home Improvement Co. signed a completion certificate without knowing it, or signed any title 1 FHA papers without knowing what he signed? Do you know of any instance in which any—

Mr. BRETT. Without knowing what he signed? Of personal knowledge; no.

Mr. HOGUE. Do you know whether that ever happened?

Mr. BRETT. Well, that I wouldn't know, whether it ever happened, only as to my personal knowledge, sir, because I was not in the house when these sales were made.

Mr. HOGUE. Did a man by the name of Louis Garthson work for the Pioneer Home Improvement Co.?

Mr. BRETT. Yes, sir.

Mr. HOGUE. Did a man by the name of Max Lichtenberg work for the Pioneer Home Improvement Co.?

Mr. BRETT. Yes, sir.

Mr. HOGUE. Were Michael Garthson and Max Lichtenberg known when they worked for your organization as M. and M.?

Mr. BRETT. That matter has come up several times. I believe you have a letter there signed by M. and M.

Mr. HOGUE. Will you answer my question?

Mr. BRETT. I am trying to give you an explanation of it, sir. I think the whole thing is something in the way of a joke.

Mr. HOGUE. I have not asked you a question as to what happened.

Mr. BRETT. They both had initials of "Max" and "Michael."

Mr. HOGUE. And you say "somewhat in the nature of a joke, they were known as M. and M.;" is that correct?

Mr. BRETT. It could be; yes.

Mr. HOGUE. I show you another file and ask you to look at the first paper in that file. Would you read the first and second paragraph on that paper?

Mr. BRETT (reading):

DEAR LOU: \$110 deposit was cash received. We had all the papers signed due to the manner this man wishes to pay. This is not to be financed, but the papers are signed for the protection of the office. The customer does not realize he signed finance papers.

Mr. HOGUE. That is enough. Doesn't that indicate to you that that was at least one instance in which a salesman of your company did not advise the customer what he was signing?

Mr. BRETT. It indicates that; yes, sir.

Mr. HOGUE. I believe you referred a short time ago to the cost of one of these contracts. I return to you the papers in the case of Henry C. Pier and ask you to tell me what the contract price was.

Mr. BRETT. \$710.

Mr. HOGUE. What do those papers indicate the cost of that job was?

Mr. BRETT. \$291.

Mr. HOGUE. Was it customary for your company to make a profit of that size on contracting jobs?

Mr. BRETT. I didn't hear the question.

Mr. HOGUE. What was the difference between the cost and the contract price?

Mr. BRETT. \$319.

Mr. HOGUE. And was that paid to the salesman as a commission?

Mr. BRETT. Yes, sir.

Mr. HOGUE. On a job of that small amount he got \$319?

Mr. BRETT. Yes, sir.

Mr. HOGUE. Was there any profit left for the company in that?

Mr. BRETT. Yes, sir.

Mr. HOGUE. And how much was the profit the company made?

Mr. BRETT. That, I couldn't tell you.

Mr. HOGUE. You can tell me from those papers, can you not?

Mr. BRETT. No; I cannot, sir.

Mr. HOGUE. I show you this. Is that a bill that was received by you for the work done when you subcontracted the work?

Mr. BRETT. Yes, sir.

Mr. HOGUE. What was the amount of that bill?

Mr. BRETT. \$134.

Mr. HOGUE. Does the difference between \$134 and the \$291 represent profit to the company?

Mr. BRETT. No, sir.

Mr. HOGUE. What additional amounts would have entered into that figure?

Mr. BRETT. Material.

Mr. HOGUE. Doesn't that bill cover material?

Mr. BRETT. No, sir.

Mr. HOGUE. What would the material have amounted to?

Mr. BRETT. The approximate profit on that would be about \$80.

Mr. HOGUE. About \$80?

Mr. BRETT. Yes, sir.

Mr. HOGUE. So that on a job which cost the customer \$610, the actual cost to you was approximately \$200, and the salesman was paid a commission of \$319?

Mr. BRETT. Yes, sir.

Senator BUSH. May I ask you a question right there? How many salesmen did you have at this time, how many salesmen were employed by your company at the time of this incident?

Mr. BRETT. That I wouldn't know.

Senator BUSH. Give it to me approximately. Were there 10 or 100 or 500? Can you give us an approximate idea of the size of your sales organization at that time?

Mr. BRETT. There might have been 10 or 15.

Senator BUSH. But it was not 50 or 60?

Mr. BRETT. I don't think so.

Senator BUSH. You ought to have a pretty good idea.

Mr. BRETT. I do not, sir.

Mr. BLUME. The list was furnished to the committee with their names and addresses.

Senator BUSH. All I am asking the witness is—there is no trick to this question—I am just trying to get an idea of the approximate size of your sales organization.

Mr. BRETT. Perhaps 15, more or less.

Senator BUSH. All right, that is fair enough.

What were the arrangements with your salesmen regarding compensation?

Mr. BRETT. They were not really in the way of salesmen, they were independent contractors. We charged them so much per job and they were practically in business for themselves. They brought the work to us, as well as they did to other organizations.

Senator BUSH. You were, in effect, subcontractor for these individuals?

Mr. BRETT. That is correct.

Senator BUSH. They were not in the employ of your company at all?

Mr. BRETT. That is correct.

Mr. SIMON. Mr. Brett, isn't what you are saying that they went out and got contracts between the homeowner and your company, the contracts were not between the salesmen and the homeowner, were they?

Mr. BRETT. The contracts were between the salesmen and the homeowner—as you call them salesmen—they were contractors. We would subcontract the work.

Mr. SIMON. Yes; but you subcontracted to someone else, but you were the contractor in the agreement signed with the homeowner? Didn't you say to them, "Here is the price, here is par. Anything you can get above that is yours"?

Mr. BRETT. Those are your words.

Mr. SIMON. Wasn't that the deal?

Mr. BRETT. We charged so much per job.

Mr. SIMON. That was known as "par"; is that right?

Mr. BRETT. Par, that is right, that was a par deal.

Mr. SIMON. Anything about par was the salesman's?

Mr. BRETT. Yes, sir.

Mr. SIMON. If he could get three times par from the home owner, he kept all the difference?

Mr. BRETT. Not as a usual thing. We wouldn't accept it that way.

Mr. SIMON. Did you ever turn one down?

Mr. BRETT. Yes; we turned them down.

Mr. SIMON. Can you tell us which ones?

Mr. BRETT. No, sir.

Mr. SIMON. Can you name one that you ever turned down?

Mr. BRETT. If I had the books in front of me, I probably could.

Mr. SIMON. That you turned down because the price was too high?

Mr. BRETT. Yes, sir.

Mr. SIMON. Aren't there a goodly number where the salesmen sold it at at least twice par, and you filled the order?

Mr. BRETT. It is possible.

Mr. SIMON. It is not only possible but it happened, didn't it?

Mr. BRETT. If I saw the books, I could tell you whether it did or didn't.

Senator BUSH. Do you consider the Pier job that we were just discussing, on which you got approximately \$270, and the salesman got a gross price of \$610 and he made a profit of \$319—do you consider that excessive or was that approximately normal? You didn't turn that one down?

Mr. BRETT. No, sir.

Senator BUSH. Was that a typical example of what a man could make on one of these contracts?

Mr. BRETT. No; it wasn't typical. It was exceptional.

Senator BUSH. Was it exceptionally high or exceptionally low?

Mr. BRETT. High.

Senator BUSH. Exceptionally high?

Mr. BRETT. Yes.

Senator BUSH. You said a little while ago that these men were contractors themselves, but I notice that this contract is on the form of the Pioneer Home Improvement Co. Isn't that your company?

Mr. BRETT. Yes, sir.

Senator BUSH. So that when he did business with the client he was doing business in the name of your company?

Mr. BRETT. Also carried the contracts of several other organizations.

Senator BUSH. I mean in this case he was doing business on your stationery?

Mr. BRETT. Yes, sir.

Senator BUSH. And your contract was the contract that was used?

Mr. BRETT. Yes, sir.

Senator BUSH. Therefore you were the contractor?

Mr. BRETT. You have a better knowledge of law than I do, sir.

Senator BUSH. It doesn't take any knowledge of law to know this. Here is the signature by Pioneer Home Improvement Co., by H. Ross. Is that an official signature of your company?

Mr. BRETT. Yes, sir. If it is on there, surely.

Senator BUSH. Then you were the contractor for this work?

Mr. BRETT. That isn't the way we had it set up.

Senator BUSH. I ask you whether that is the contract for the work done?

Mr. BRETT. That is.

Senator BUSH. Therefore, you were the contractor; is that right?

Mr. BRETT. No, sir.

Senator BUSH. All I want is a simple answer to that one question. Here is a contract signed by your company on your company's station-

ery, on the form which you gave these men. Therefore, it seems almost indisputable that your company is the contractor, but you say "No."

Mr. BRETT. If it is indisputable, sir——

Senator BUSH. I am asking you to answer the question whether or not you were the contractor?

Mr. BRETT. In this particular instance?

Senator BUSH. You are giving testimony under oath here now.

Mr. BRETT. I realize that.

Senator BUSH. Is that not your contract?

Mr. BRETT. It is.

Mr. SIMON. Did you have them printed?

Mr. BRETT. Yes, sir.

Mr. SIMON. Did you pay the printer for printing them?

Mr. BRETT. I could have.

Mr. SIMON. The printed form says: "This agreement made this blank day of blank, 19 blank, between—and then a place for the home owner and even a place for the address—city and State, hereinafter called the 'owner' and Pioneer Improvement Co. of the city of Newark, county of Essex and State of New Jersey, hereinafter called the 'contractor'."

Did you have them printed?

Mr. BRETT. Yes, sir.

Mr. SIMON. Didn't you call yourself the contractor in your printed contract?

Mr. BRETT. Yes, sir.

Mr. SIMON. And did you authorize H. Ross to sign these contracts?

Mr. BRETT. Yes, sir.

Mr. SIMON. For Pioneer Home Improvement Co.?

Mr. BRETT. Yes, sir.

Mr. SIMON. Well then, weren't you the contractor, and wasn't he your agent?

Mr. BRETT. Yes, with an explanation.

Senator BUSH. Will you make the explanation?

Mr. BRETT. I certainly will.

Senator BUSH. Make it right now.

Mr. BRETT. Mr. Ross, or any other man who brought work in to us, carried 4 or 5 or 2 or 3 contracts of different organizations and would place the work wherever he felt he wanted to.

Mr. SIMON. When he placed it for your company he was acting as your agent?

Mr. BRETT. You are asking me a legal question.

Mr. SIMON. Was he authorized to sign these contracts for you?

Mr. BRETT. Yes, sir.

Mr. SIMON. In this particular case a job which cost you \$200, he sold to the home owner for \$610?

Mr. BRETT. Yes, sir.

Mr. SIMON. That was three times your cost and you didn't turn it down?

Mr. BRETT. That is right.

Mr. SIMON. And par there was \$291? And under your deal anything over par was his?

Mr. BRETT. Yes, sir.

Mr. SIMON. And you didn't care what he sold it for; is that right?

Mr. BRETT. Within limitations.

Mr. SIMON. What were the limitations? You said a moment ago that if it was twice you might not take it. Here is one three times. You did take it. What are the limitations?

Mr. BRETT. I think that is twice, isn't it, \$291?

Mr. SIMON. Well, your costs were \$200, but even on par of \$291, it is more than double.

Mr. BRETT. A little more than double. Let's use round figures and say it is double.

Senator BUSH. Your understanding with these salesmen—and I insist that they are not contractors because you were the contractor and we have, I think, established that point—these agents—was it virtually that they could get whatever they could, and whatever they got over what your arrangements with them indicated, they could keep, whatever they got over? In effect, that was the basis you had, it wasn't a fixed commission, it wasn't a fixed profit, it was variable. They could have charged this fellow \$400 more, \$100 more than they got, a total of \$400, and you probably wouldn't have questioned that, would you?

Mr. BRETT. I don't know what I would have done, sir.

Senator BUSH. The decision was really theirs as to what they got for the contract, they could have sold it for \$100 less than they got and you wouldn't have questioned that because you didn't question this, is that so?

Mr. BRETT. Well, it is a conclusion.

Senator BUSH. Is it your conclusion?

Mr. BRETT. No, sir.

Mr. HOGUE. What is your conclusion?

Mr. BRETT. I think I told you my conclusion that anything which was reasonable——

Mr. HOGUE. What is your definition of reasonable?

Mr. BRETT. That contract there would be reasonable.

Mr. HOGUE. You mean the contract on which you made some four or five hundred dollars on a \$200——

Mr. BRETT. I think you are upping the figures a little.

Mr. HOGUE. \$400.

Mr. BRETT. It isn't \$400.

Mr. HOGUE. The profit was \$200?

Mr. SIMON. Your cost was \$200, wasn't it?

Mr. BRETT. Yes.

Mr. SIMON. And the customer's cost was \$610; is that right?

Mr. BRETT. As long as you are using it, then our cost was around \$220, approximately.

Mr. SIMON. I think you said \$148 and \$80. All right, \$220 to \$610 then; is that right?

Mr. BRETT. Now we are getting somewhere.

Mr. HOGUE. Mr. Brett, have you ever heard of the model home approach?

Mr. BRETT. Yes, sir.

Mr. HOGUE. What is your definition of the model home approach?

Mr. BRETT. I have never used it.

Mr. HOGUE. You know what it is, don't you?

Mr. BRETT. Yes, sir.

Mr. HOGUE. You have been in the selling business for quite some time?

Mr. BRETT. Quite a long time, sir.

Mr. HOGUE. What is your definition of it?

Mr. BRETT. It is quite a lengthy thing.

Mr. HOGUE. When a salesman approaches a customer and advises the customer that if they will contract for the job and let their home be used as a model, they will receive a certain amount of money for each sale in the particular area?

Mr. BRETT. In essence, that is about what it would be; yes.

Mr. HOGUE. You say you have never used the model home approach?

Mr. BRETT. That is right.

Mr. HOGUE. You are sure of that?

Mr. BRETT. Yes.

Mr. HOGUE. Are you aware of the fact that this committee has had prior public hearings which absolutely contradict your testimony?

Mr. BRETT. I am answering the question truthfully.

Mr. HOGUE. I say, are you aware of the fact that there has been contradictory testimony introduced before this committee——

Mr. BRETT. I am not aware of that fact.

Mr. HOGUE. Did you ever hear of a Mr. D'Aquila?

Mr. BRETT. Yes, he got some publicity in the newspapers, I believe.

Mr. HOGUE. You read about it?

Mr. BRETT. Yes.

Mr. HOGUE. And what did the publicity say about——

Mr. BLUME. Just to be fair, are you saying that Mr. D'Aquila had said that Brett used the model home?

Mr. HOGUE. Have any of your salesmen ever used the model home approach?

Mr. BRETT. Not that I know of.

Mr. HOGUE. Yet you read about Mr. D'Aquila in the newspapers?

Mr. BRETT. That is right.

Mr. HOGUE. Wasn't he one of your salesmen?

Mr. BRETT. Mr. D'Aquila?

Mr. HOGUE. Yes.

Mr. BRETT. No. He is the man who had the work done.

Mr. HOGUE. That job was sold by the Pioneer Home Improvement Co. Did you read that in the papers?

Mr. BRETT. Yes, I did.

Mr. HOGUE. You have never heard of a case in which any salesmen of the Pioneer Home Improvement Co.——

Mr. BRETT. I said not that I know of. You asked me whether I used it personally.

Mr. HOGUE. Yes, I did, and you answered "no," but——

Mr. BRETT. You also said that there was testimony to the contrary that I have used it.

Mr. HOGUE. Not that you have used it, that the Pioneer Home Improvement Co. used it.

Mr. BRETT. I said, not that I know of.

Mr. SIMON. Let's put it this way, Mr. Brett, has the model home approach been used by salesmen who were selling these jobs using your printed form of contract?

Mr. BRETT. I have never heard them use it.

Mr. SIMON. You have never heard of them using it?

Mr. BRETT. That is correct.

Mr. HOGUE. Yet you just stated you read in the newspaper the testimony of Mr. D'Aquila before this committee.

Mr. BRETT. I read it in the newspaper about 3 years after it happened.

Mr. HOGUE. And you never heard of its happening?

Mr. BRETT. Not that I know of. If anyone did use it, I wouldn't take any more of their paper.

Mr. SELLS. When you say you never heard them use it, you mean that you weren't personally present when the salesmen would close the sale?

Mr. BRETT. That is correct.

Mr. SELLS. But you don't mean to sit there and tell us that you can state that you know as a fact that none of them ever did use it?

Mr. BRETT. Of course, I don't know that.

Mr. BLUME. May I just interrupt a moment?

(The witness conferred with counsel.)

Mr. HOGUE. Mr. Brett, have you ever had any complaints from customers that any of your salesmen or any persons selling your materials and your jobs had used the model home approach?

Mr. BRETT. Yes, sir.

Mr. HOGUE. Have you had many of those?

Mr. BRETT. Not too many.

Mr. HOGUE. How many would you say?

Mr. BRETT. I can't recall the number.

Mr. HOGUE. Would it be a dozen, 50, or 100?

Mr. BRETT. Any figure that you mention it might be.

Mr. HOGUE. I am not testifying here for you.

Mr. BRETT. I understand, but I don't know and I am trying to tell you that I don't know.

Senator BUSH. Would 100 seem unreasonable?

Mr. BRETT. I think so.

Senator BUSH. Too many or too little?

Mr. BRETT. Too many.

Mr. SIMON. How about 50?

Mr. BRETT. I think that would be reasonable.

Mr. SIMON. How many?

Mr. BRETT. I would take a guess—it is a wild guess and it is from left field—maybe 10, 15, 20.

Senator BUSH. Weren't you disturbed when you got them?

Mr. BRETT. Of course, I was.

Senator BUSH. I should think if you had been disturbed you would have an idea how many times you were disturbed by these occurrences?

Mr. BRETT. The salesmen were no longer with us, after we received the complaint, so I was no longer disturbed.

Senator BUSH. You were sufficiently disturbed to sever relationships with them then; is that right?

Mr. BRETT. That is correct.

Senator BUSH. Did you then, after the first incident, notify all who were authorized to make contracts for you that they could not use the model home approach?

Mr. BRETT. They were notified at the time they started business with me.

Senator BUSH. They were never permitted to do it?

Mr. BRETT. That is correct.

Senator BUSH. They were absolutely forbidden to do it?

Mr. BRETT. That is correct.

Senator BUSH. But they did do it?

Mr. BRETT. Oh, on occasion I suppose they did get away with it. I couldn't police them that closely.

Mr. SIMON. How many salesmen have you had over the last 5 years?

Mr. BRETT. I couldn't answer that. I would have to look at the books.

Mr. SIMON. You say you had 10 or 15 or 20 at a time, but how fast was the turnover?

Mr. BRETT. I couldn't tell you the mortality rate. I did submit to the committee down in Washington a list of names of those whom we had a record of.

Mr. SIMON. There are about 45 of them here.

Mr. BRETT. I think there was more than that.

Mr. SIMON. How many were there, then?

Mr. BRETT. I don't know, but I believe there were more. The committee had asked me to submit a list of the names who worked for Bondstone subsequent to working for Pioneer Home Improvement Co. That is the list that you have in front of you.

Mr. SIMON. How long has Bondstone been in existence?

Mr. BRETT. I think a couple of years.

Mr. SIMON. How long before that was Pioneer in existence?

Mr. BRETT. Eleven years; 1941 they incorporated and in 1952—it was a little over 11 years.

Mr. SIMON. All of these 45 had worked for Bondstone; is that right?

Mr. BRETT. Yes.

Mr. SIMON. How many salesmen did Pioneer have?

Mr. BRETT. You mean altogether or at one time?

Mr. SIMON. Altogether.

Mr. BRETT. That, I couldn't say, sir. I would have to look at the books to tell you.

Mr. SIMON. Was it three or four hundred?

Mr. BRETT. It could have been. I don't know. I don't think so.

Mr. SIMON. How many do you think it was?

Mr. BRETT. I wouldn't want to make a guess.

Mr. SIMON. Do you keep social-security records for them?

Mr. BRETT. On some of them; yes.

Mr. SIMON. Don't you on all of them?

Mr. BRETT. No.

Mr. SIMON. You don't know how many salesmen Pioneer had?

Mr. BRETT. No, sir.

Mr. HOGUE. You say you don't keep social-security records on all of your salesmen?

Mr. BRETT. That is right.

Mr. HOGUE. Do you withhold taxes from them?

Mr. BRETT. No, sir.

Mr. HOGUE. You do not?

Mr. BRETT. No, sir.

Mr. HOGUE. And yet these salesmen were authorized to go out and sign contracts in the name of the company?

Mr. BRETT. You are coming into another phase of it, sir.

Mr. HOGUE. That is true, isn't it?

Mr. BRETT. I am going to ask my counsel whether I should answer that question or not.

(The witness and counsel conferred.)

Mr. SIMON. The question is whether he withheld income taxes from these people and social-security taxes?

Mr. BRETT. No, sir.

Mr. HOGUE. You did not?

Mr. BRETT. No, sir.

Mr. HOGUE. And yet these people were authorized to go out and secure contracts in the name of your company?

Mr. BRETT. I treated them as independent contractors.

Senator BUSH. You subcontracted to them.

Mr. HOGUE. Were there any formal contracts entered into with them?

Mr. BRETT. Yes, sir.

Mr. HOGUE. Do you have any copies with you?

Mr. BRETT. No, sir.

Mr. HOGUE. You are sure they weren't verbal arrangements?

Mr. BRETT. Yes, sir.

Mr. HOGUE. You have never had a verbal arrangement with any of your subcontractors?

Mr. BRETT. In reference to what, Mr. Hogue?

Mr. HOGUE. In reference to the work that was done for your company, the Pioneer Home Improvement Co.

Mr. BRETT. There may have been, in addition to the written contracts, verbal agreements, as you do in all businesses.

Mr. HOGUE. You submitted some papers to us, I believe, and there was not a single form of such a contract in them.

Mr. BRETT. I was not in possession of them, sir.

Mr. HOGUE. Do you have any forms?

Mr. BRETT. No, sir.

Mr. SIMON. Who is in possession of those?

Mr. BRETT. Mr. Joe Walsh.

Mr. SIMON. Who is he?

Mr. BRETT. Receiver for the Pioneer Home Improvement Co.

Mr. HOGUE. So the Pioneer Home Improvement Co. ultimately went into bankruptcy?

Mr. BRETT. Yes, sir.

Mr. HOGUE. When did that occur?

Mr. BRETT. 1952.

Mr. HOGUE. What was the reason for that bankruptcy?

(The witness conferred with his counsel.)

Mr. BLUME. Senator, there is a question as to whether or not that is within the purview of this hearing.

Senator BUSH. I would say, if you want to offer some objection, what is your objection? It seems to me to be a perfectly pertinent question, because we are talking about the Pioneer Co. here, and we have some very important questions concerning it.

Now we suddenly find out that it went into bankruptcy. I think it is perfectly proper to ask a question, what caused the bankruptcy.

Mr. BLUME. That does not seem to me to be within the purview of the hearing here. The hearing, as I understand, is to go into the title I loans. Therefore, I say it is farfetched from the issue here.

Senator BUSH. I simply say——

Mr. SIMON. Was the Pioneer Home Improvement Co. engaged in the business of making repairs that were insured by title I loans?

Mr. BRETT. Yes, sir.

Senator BUSH. I would say the question is entirely pertinent. I don't see why you have any objection to it. It is pertinent. Now will you answer the question, What was the cause of this company going into bankruptcy?

Mr. BRETT. The product that we had been using proved to be deficient.

Senator BUSH. What was that product?

Mr. BRETT. A spray paint.

Senator BUSH. A spray paint?

Mr. BRETT. Yes, sir.

Senator BUSH. And how did it prove to be deficient? Who found that it was deficient?

Mr. BRETT. By the use of it, sir, the customers—by the number of complaints that had come in. We took care of as many as we possibly could.

Senator BUSH. Did they make claims for refunds?

Mr. BRETT. Not for refunds; no, sir.

Senator BUSH. What for?

Mr. BRETT. To make it right, to make the job right, and we tried to make the jobs right. We tried to make as many as we possibly could, following the manufacturer's instructions, and it caught up with us—there were more complaints than we could handle.

Senator BUSH. So you put the company into bankruptcy?

Mr. BRETT. There was no further money to proceed with.

Senator BUSH. Is the company still in bankruptcy?

Mr. BLUME. Well now, what do you mean by "still in bankruptcy"?

Senator BUSH. I mean, does it still have creditors that are unsatisfied?

Mr. BLUME. Do you want me to answer?

Senator BUSH. I would like to have the witness answer.

Mr. BRETT. That is a legal question that I don't know.

Senator BUSH. That is not a legal question at all. You were the head of the company. I am just asking you whether you ever satisfied your creditors.

Mr. BLUME. I can answer that from a legal point of view, that the assets were not sufficient to satisfy the creditors.

Senator BUSH. At that time?

Mr. BLUME. At the time they went into bankruptcy.

Senator BUSH. And they since have not been satisfied.

Mr. BLUME. That is right.

Senator BUSH. Can you tell us what the assets of the company were at the time you went into bankruptcy?

Mr. BRETT. I could not, sir.

Senator BUSH. Can you estimate it?

Mr. BRETT. No, sir.

Senator BUSH. Was it as large as \$100,000?

Mr. BRETT. The assets?

Senator BUSH. Yes.

Mr. BRETT. I don't think so. I think they were almost nil. I could get that for you.

Senator BUSH. What were the liabilities?

Mr. BRETT. That, I don't know. That was all in a schedule in bankruptcy, and the records would show it.

Senator BUSH. Were they as large as \$50,000?

Mr. BRETT. I don't know, sir.

Senator BUSH. Would you say that was a high figure or a low figure?

Mr. BRETT. I wouldn't know whether it was high or low.

Senator BUSH. You were the head of the company?

Mr. BRETT. Yes, sir. I don't remember it. I mean, those are figures that I can get and I don't carry them around in my mind.

Mr. HOGUE. In any event, the result of the bankruptcy was that the company was unable to satisfy the claims of the creditors; is that correct, the people who made these complaints?

Mr. BRETT. Yes, sir.

Mr. BLUME. They did get dividends.

Mr. HOGUE. What was the amount of the dividends, 2 percent, 10 percent?

Mr. BLUME. I don't know.

Was it as much as 10 percent, do you know, Mr. Brett?

Mr. BRETT. No.

Mr. HOGUE. Do you know whether it was 1, 2, or 3 percent?

Mr. BRETT. I do not.

Mr. HOGUE. Were all these paint matters you are talking about, mastic paints?

Mr. BRETT. So-called.

Mr. HOGUE. Was this \$610 job we spoke about earlier a mastic paint job?

Mr. BRETT. From what I saw; yes.

Mr. HOGUE. How much did the paint cost you that went on an average house?

Mr. BRETT. I don't recall.

Mr. HOGUE. In this one it cost you \$80; is that right?

Mr. BRETT. I don't recall.

Mr. HOGUE. Isn't that what you testified that it was \$80 on this one?

Mr. BRETT. No, I did not testify to any exact figures. You pressed me for an answer, and I gave you an approximate figure.

Mr. HOGUE. How many gallons of this mastic paint did it take to cover a house?

Mr. BRETT. Depending upon the size of the house.

Mr. HOGUE. Well, the average house?

Mr. BRETT. What is the average house, sir? I am not trying to fence with you, but I mean you are throwing questions that I can't honestly answer.

Mr. HOGUE. The average six-room house.

Mr. BLUME. Two story or one story?

Mr. HOGUE. Two story.

Mr. BLUME. It makes a difference.

Senator BUSH. I agree with you. You have got a good point there.

Mr. BRETT. It is a guess.

Mr. HOGUE. What is your best estimate of how many gallons it would take to paint a 6-room, 2-story house?

Mr. BLUME. And, of course, the size of the rooms has a lot to do with it, too.

Mr. HOGUE. I said the average amount.

Mr. BRETT. I think the question is not important, so I will try to make a guess at it. You might think it is important. I would say the material may cost anywhere between \$130 and \$150, or more.

Mr. HOGUE. How many gallons, my question was.

Mr. BRETT. How many gallons?

Mr. HOGUE. Yes.

Mr. BRETT. It would probably take 45 or 50 gallons. I am not sure. I think the cost is \$6 a gallon.

Mr. HOGUE. Thank you.

Mr. BRETT. Those figures I gave you, I may be way off.

Mr. HOGUE. These claims you referred to which led to the bankruptcy of the company, were some of those received in 1951?

Mr. BRETT. I couldn't give the dates of them. They may have been on minor nature.

Mr. HOGUE. In 1952?

Mr. BRETT. Yes.

Mr. HOGUE. When was the bankruptcy?

Mr. BRETT. 1952.

Mr. HOGUE. The bankruptcy petition was filed in 1952?

Mr. BRETT. Yes, sir.

Mr. HOGUE. So that there must have been a large number of claims pending at that time?

Mr. BRETT. That is correct.

Mr. HOGUE. They must have been coming in over a year's period or a few months' period before; is that correct?

Mr. BRETT. I believe so.

Mr. HOGUE. You realized, did you not, that the company was trying to repair these?

Mr. BRETT. That is correct, sir.

Mr. HOGUE. Isn't it true that in the bankruptcy proceeding you were charged with withdrawing funds from the company for your own personal use?

Mr. BLUME. I object, as outside the scope of this committee.

Senator BUSH. The Chair will overrule that objection. We think it is within the scope of this committee.

Mr. BLUME. I ask the Chair's reason why it is within the scope of this committee.

Senator BUSH. The indication appears to be that the taxpaying citizens who were doing business with this company felt that they had been fleeced, that they hadn't gotten their money's worth, so they were filing claims with this company. It now appears that the company had gone into bankruptcy and there is a strong indication that it was put into bankruptcy, and before it went into bankruptcy this gentleman took money out of it so he wouldn't lose it when it went into bankruptcy. That is the reason why we want to pursue this questioning.

Mr. BLUME. Mr. Senator, do you have any facts to back up what you said?

Senator BUSH. I believe we have. They are going to come out.

Mr. HOGUE. I want to ask Mr. Brett some questions about that first.

Is it true or not that during the period December 1, 1951, to October 31, 1952, you withdrew funds from this corporation charged to your personal account and used them for your own personal expenditures, but that they were reflected on the books of the corporation as business expenses?

Mr. BRETT. Yes.

Mr. HOGUE. You did. What did you use those funds for?

Mr. BLUME. I object, as immaterial. That is not before this committee. That is a matter that is in the bankruptcy court and it has been litigated there.

Senator BUSH. The witness has testified that he withdrew the funds for his own personal use, did he not?

Mr. BLUME. Certain funds.

Mr. HOGUE. How much did those funds amount to?

Mr. BRETT. I don't know.

Senator BUSH. The Chair cannot sustain that objection. This line of questioning is pertinent, as I said, to this whole question of this company's failure to meet its obligations to the taxpaying public, the citizens of the United States. That is what we are trying to do, is to get at the bottom of this situation so that the law may be, if possible, corrected, so that we can avoid the possibilities of such abuses.

I think it is very pertinent and I think that the witness should answer the question.

Mr. BLUME. Now the Senator knows very well that the withdrawal of funds from a corporation is not controlled by any Federal agency.

Mr. SIMON. Counsel, there is no question but what the funds we are talking about came from banks that took the paper that this company had and all of that paper is guaranteed by the Government, and if the homeowners don't pay the notes because they didn't get their money's worth, the United States Government has got to sue them. If they don't pay the Government loses the money.

Mr. BLUME. The Pioneer is not responsible for that money and you know it.

Mr. SIMON. Unfortunately, that is true, and the Government is responsible.

Mr. BLUME. That is why I say it is immaterial here.

Mr. SIMON. It is certainly material to the Government to know where the money went that the Government is left holding the bag.

Mr. BLUME. The Government paid no money to Pioneer Home Improvement Co.

Senator BUSH. The Government provided the credit for it. I am sorry, I have to overrule this.

Will you proceed, Mr. Hogue.

Mr. BLUME. What is the question, please?

Mr. HOGUE. I would like to know for what purpose you used the funds which you withdrew from the Pioneer Home Improvement Co.?

Mr. BRETT. The records, I believe, would show that, everything that you ask.

Mr. HOGUE. I am asking you the question.

Mr. BRETT. I don't know. I would have to have the books to answer your question.

Mr. HOGUE. You don't have any present recollection as to what you used the funds for? Did you use them to buy clothes?

Mr. BRETT. It is possible.

Mr. HOGUE. Did you use them to pay light and heat bills on your home?

Mr. BRETT. It is possible.

Mr. HOGUE. Did you use them for dues at country clubs?

Mr. BRETT. It is possible.

Mr. HOGUE. For what other purpose did you use them?

Mr. BRETT. I can't recall, sir.

Mr. HOGUE. Is any of that money by any chance now invested in your present company, Bondstone Corp.?

Mr. BRETT. No, sir.

Mr. HOGUE. You are sure of that?

Mr. BRETT. Yes, sir.

Mr. SELLS. Mr. Brett, what does the term "dynamiter" mean to you?

Mr. BRETT. One who uses the model-home pitch.

Mr. SELLS. Does that also apply to someone who is known as a "suede-shoe boy"?

Mr. BRETT. I never heard that expression.

Mr. SELLS. You have heard the term "dynamiters"?

Mr. BRETT. Yes.

Mr. SELLS. Were any of these salesmen that you employed in Pioneer "dynamiters"?

Mr. BRETT. Not to my knowledge.

Mr. SELLS. Not to your knowledge?

Mr. BRETT. No.

Mr. SELLS. But they could have been?

Mr. BRETT. They could have been; yes.

Mr. BLUME. One question was asked whether Mr. Brett had any interest in Bontstone. I assume by way of officer, stockholder and so forth?

Senator BUSH. What was the question again?

Mr. BLUME. The question was asked whether Mr. Brett had any interest in Bondstone. I assume by way of stockholder or director; is that the question?

Mr. HOGUE. Yes, stockholders, director in any way.

Senator BUSH. Let's rephrase the question. What interest, if any, did he have in Bondstone?

Mr. BLUME. He has no interest.

Mr. SIMON. Let him answer. He is under oath.

Senator BUSH. Will you answer the question, what interest, if any, do you or did you have?

Mr. BRETT. Working for them as a salesman, and in the original incorporation I had loaned some money to my son.

Mr. SIMON. Mr. Brett, in the 13 months prior to the bankruptcy of Pioneer, did you and your brother withdraw—

Mr. BRETT. Son.

Mr. SIMON. You and your son, did you and your son withdraw \$43,000 from the Pioneer?

Mr. BRETT. No, sir.

Mr. SIMON. How much did you withdraw in that period?

Mr. BRETT. I don't know.

Mr. SIMON. How do you know it isn't \$43,000—

Mr. BRETT. Because we were in business since 1941.

Mr. SIMON. My question is, in the 13 months prior to the bankruptcy, did you and your son withdraw \$43,000?

Mr. BRETT. No, sir.

Mr. SIMON. How much did you withdraw?

Mr. BRETT. I don't know.

Mr. SIMON. Was it \$44,000?

Mr. BRETT. I don't know.

Mr. SIMON. Was it \$42,000?

Mr. BRETT. I don't know.

Mr. SIMON. How do you know it wasn't \$42,000 and wasn't \$44,000, but you know it wasn't \$43,000?

Mr. BLUME. I think counsel is arguing with the witness now. Our records would show these things and the witness says he does not recall it.

Senator BUSH. The record will show what the witness said. I see nothing wrong with the questioning.

Mr. BRETT. I don't know.

Mr. SIMON. What is your best recollection of what you and your son—

Mr. BRETT. I do not have any recollection.

Mr. SIMON. Did you file an income-tax return for the year 1952?

Mr. BRETT. Yes, sir.

Mr. SIMON. Did your son?

Mr. BRETT. I believe so. I don't know whether he ever did or not. I know I did.

Mr. SIMON. How much did you return on your income-tax return—

Mr. BRETT. I don't recall.

Senator BUSH. Did you return anything?

Mr. BRETT. I think so. I am pretty sure I paid income tax.

Senator BUSH. That is not the question. Did you make any showing on your income-tax return of this withdrawal from the Pioneer Co. before its bankruptcy?

Mr. BRETT. All of my income-tax returns are true.

Senator BUSH. I didn't say that they weren't. That is not the question. The question is, did you put on your income-tax return any evidence of the withdrawal of moneys from the company before its bankruptcy?

Mr. BLUME. I think the question the Senator has asked is outside the scope of this examination.

Senator BUSH. I am afraid if we followed your ideas on this we wouldn't have any questions at all to ask this gentleman. We are trying to get at the bottom of this thing to see what happened to the money and why the people who made these contracts with this company were left holding the bag. That is what they were left with.

I ask you the question once more: Did you indicate on your income-tax return of that year, in any entry, that had to do with the withdrawal of funds of this company before it went into bankruptcy?

Mr. BRETT. Of course I did.

Mr. SIMON. How much was it?

Mr. BRETT. I don't know. My accountant has those figures. He has a copy of the income-tax return. I could get it from those figures.

Mr. SIMON. I show you a report by a certified public accountant, Pogash & Co., in Newark, N. J., to Joseph Walsh, the receiver of Pioneer Home Improvement Co., in which these auditors report that in the period December 1, 1951, to October 31, 1952, which is a period of 11 months, you and your son withdrew \$42,310.98, and I ask you if that is a false statement?

Mr. BRETT. I wouldn't know.

Senator BUSH. You have not looked at it yet. Look at it.

Mr. BRETT. I wouldn't know if it was. I have an accountant that does this work for me.

Senator BUSH. That is a rather large sum of money. Wouldn't you know about that?

Mr. BRETT. There are salaries in there; there are commissions in there.

Mr. SIMON. Did you do any selling yourself?

Mr. BRETT. Yes, sir.

Mr. SIMON. Do those commissions look like what you had earned for the selling you did?

Mr. BRETT. Could be; yes, sir.

Mr. SIMON. What do you mean by "could be"? I suppose anything "could be."

Mr. BRETT. I don't know what these figures represent. I don't understand these figures. I have an accountant who goes over these for me.

Mr. SIMON. Do you understand \$42,310?

Mr. BRETT. It all depends upon how you say it.

Mr. SIMON. I surrender.

Mr. HOGUE. Was Mr. Al Granat one of the men who did work for you in selling?

Mr. BRETT. Yes.

Mr. HOGUE. What period of time was that?

Mr. BRETT. I can't recall the exact period.

Mr. HOGUE. Wasn't he working for you during the year 1951?

Mr. BRETT. I believe so.

Mr. HOGUE. And 1952?

Mr. BRETT. I believe so.

Mr. HOGUE. Did you know that Mr. Granat was put on the precautionary list of FHA?

Mr. BRETT. Surely, at the same time I was.

Mr. HOGUE. At the same time you were?

Mr. BRETT. Yes, sir.

Mr. HOGUE. When was that?

Mr. BRETT. I think it was in 1953, sometime.

Senator BUSH. That is all this morning.

Mr. BRETT. Do you want me back?

Senator BUSH. Yes; you be here at 2 o'clock, please.

The committee will stand in recess until 2 o'clock.

(Whereupon, at 12:40 p. m., the committee recessed until 2 p. m.)

AFTERNOON SESSION

Senator BUSH. The committee will please be in order.

Before calling the next witness I will announce that tomorrow, after we finish our labors for today, the committee will reconvene at 10 o'clock in the same place, and the witnesses will be the following:

Israel Orlian, of Israel Orlian & Son, New York; Harry L. Osias, Kew Gardens Apartment, Inc., Queens County, N. Y.; Stanley Cooper, who is a home-repair dealer, who will testify regarding title I loans for home repairs; Mrs. Helen Nicholson, of 867 68th Street, Brooklyn, who will also testify regarding home-loan repair matters under title I; she is a homeowner; also, Peter Riccitelli, 1135 23d Street, Watervliet, N. Y., a homeowner.

The first witness this afternoon is Mr. Abraham Traub.

Mr. SHEINBERG. I am Mr. Sheinberg. I am a partner with Mr. Weisman. I understand that you wanted certain addresses. I have them here for you.

Senator BUSH. Mr. Traub, will you raise your right hand, please. Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF ABRAHAM TRAUB, FARRAGUT GARDENS, BROOKLYN, N. Y., ACCOMPANIED BY ARTHUR SHEINBERG—Resumed

Mr. TRAUB. I do.

Mr. BLUME. Do you need Mr. Brett here?

Senator BUSH. We would like to have Mr. Brett here until after we hear the witnesses today.

Mr. SIMON. Mr. Traub, you were a witness yesterday and gave your name and address to the reporter then?

Mr. TRAUB. I did.

Mr. SIMON. Can you give us now the address, the last address you had for Nettie Levy?

Mr. TRAUB. 3105 Brighton 3d Street, Brooklyn.

Mr. SIMON. Would you give that street again?

Mr. TRAUB. 3105 Brighton 3d Street, Brooklyn.

Mr. SIMON. Do you know whether she still lives there?

Mr. TRAUB. I do not.

Mr. SIMON. Rosalie Cohen?

Mr. TRAUB. Rosalind Cohen, 1012 Rutland Road, Brooklyn.

Mr. SIMON. Is that R-u-t-l-a-n-d?

Mr. TRAUB. That is right.

Mr. SIMON. Do you know whether she still lives there?

Mr. TRAUB. I do not.

Mr. SIMON. Have you been able to determine since yesterday whether you have or ever have had any ledger sheets showing the accounts of your clients and others whom you do business with?

Mr. TRAUB. I have.

Mr. SIMON. What is the fact?

Mr. TRAUB. I do have such ledger sheets.

Mr. SIMON. Where are they?

Mr. TRAUB. In Mr. Weisman's office.

Mr. SIMON. When did you find them?

Mr. TRAUB. I didn't find them. They were sent over originally with all other books and records at the same time.

Mr. SIMON. They were there all the time?

Mr. TRAUB. They were.

Mr. SHEINBERG. Mr. Simon, I think that if you will look at the inventory of the books prepared by Mr. McManus, I believe at page 69 you will find the notation of the ledger sheet.

Mr. SIMON. Is there in that ledger an account for Philip Schonfeld?

Mr. TRAUB. I do not know.

Mr. SIMON. Did you make any effort to find out since yesterday?

Mr. TRAUB. No; I did not.

Mr. SIMON. Is there in that ledger an account for Morris Kavy or the Farragut group?

Mr. TRAUB. I do not know.

Mr. SIMON. You made no effort to find out?

Mr. TRAUB. I did not look at them; no.

Mr. SIMON. Is there in that ledger an account for Alfred Kaskell?

Mr. TRAUB. I do not know.

Mr. SIMON. What was this ledger you are talking about called on the inventory that your counsel referred to?

Mr. TRAUB. I don't know.

Mr. SIMON. Do you know what ledger sheets are in that book?

Mr. TRAUB. I do not.

Mr. SIMON. Do you know what clients for whom there are ledger accounts?

Mr. TRAUB. I don't.

Mr. SIMON. I would like to make certain, Mr. Traub, that we have a correct record on this loan of Mr. Schonfeld's. Do I understand correctly it was in the amount of \$1,600,000?

Mr. TRAUB. Yes; I think it was about that amount, a million five or a million six.

Mr. SIMON. A million five hundred to a million six hundred?

Mr. TRAUB. Correct.

Mr. SIMON. When was it made?

Mr. TRAUB. Oh, over a period of years prior to 1949.

Mr. SIMON. All prior to 1949?

Mr. TRAUB. That is correct.

Mr. SIMON. In 1949 did you owe him a million five hundred thousand to a million six hundred thousand?

Mr. TRAUB. I did.

Mr. SIMON. Can we pick any particular date in 1949 on which we could say that fact was true?

Mr. TRAUB. Yes; February 14, 1949.

Mr. SIMON. On February 14, 1949, you owed Mr. Schonfeld between a million five hundred thousand and a million six hundred thousand?

Mr. TRAUB. Correct.

Mr. SIMON. Who borrowed the money?

Mr. TRAUB. I did.

Mr. SIMON. You personally?

Mr. TRAUB. I did personally.

Mr. SIMON. And on February 14, 1949; is that right?

Mr. TRAUB. That is correct.

Mr. SIMON. On that date you personally owed Mr. Schonfeld between \$1,500,000 and \$1,600,000?

Mr. TRAUB. That is correct.

Mr. SIMON. That has now been paid down to \$20,000?

Mr. TRAUB. Correct.

Mr. SIMON. And of that amount that you paid down, \$275,000, roughly speaking, was paid in cash?

Mr. TRAUB. That is right.

Mr. SIMON. That means that you paid Mr. Schonfeld during the 5-year period, from February 14, 1949, on, between \$1,480,000 and \$1,580,000, is that right?

Mr. TRAUB. No, that is not correct. It was compromised. I paid him about \$1,200,000.

Mr. SIMON. You paid him about \$1,200,000?

Mr. TRAUB. Correct.

Mr. SIMON. Between February 14, 1949, and the present?

Mr. TRAUB. Correct.

Mr. SIMON. Where did you get the money, Mr. Traub? Let me be specific. What was your income in the year 1949?

Mr. TRAUB. I can't tell you at this time what my income was in 1949.

Mr. SIMON. Does your income-tax return for the year 1949 show a loss?

Mr. TRAUB. No, it does not.

Mr. SIMON. What was your income for the year 1950?

Mr. TRAUB. I would be testifying from memory. I think the gross income was about \$800,000.

Mr. SIMON. On how much income did you pay a tax in that year?

Mr. TRAUB. I can't recall, Mr. Simon.

Mr. SIMON. Do you know whether you paid a tax in the year 1950 on a net income of \$28,621?

Mr. TRAUB. I can't recall on what amount I paid the tax.

Mr. SIMON. What was your income in the year 1951?

Mr. TRAUB. Gross income, about \$700,000.

Mr. SIMON. By "gross income" you mean the gross fees people paid you?

Mr. TRAUB. That is right.

Mr. SIMON. But you had to pay salaries and you had other expenses?

Mr. TRAUB. Oh, yes.

Mr. SIMON. And of course you couldn't have paid Mr. Schonfeld back except out of net income, is that right?

Mr. TRAUB. That is right. When you say "net income," I paid Schonfeld back out of receipts that I received fees from.

Mr. SIMON. That was income, wasn't it?

Mr. TRAUB. Yes, it was income.

Mr. SIMON. If you received \$1 and you used that dollar to pay the salary of one of your employees you couldn't pay that dollar to Mr. Schonfeld?

Mr. TRAUB. That is correct.

Mr. SIMON. So the only money that you could have available to pay Mr. Schonfeld was your gross income from fees less the cost of running your law office?

Mr. TRAUB. That is correct.

Senator BUSH. After the payment of taxes?

Mr. TRAUB. No, I didn't get that, Senator.

Mr. SIMON. You couldn't use the same dollar to pay your income taxes that you used to pay Mr. Schonfeld, could you?

Mr. TRAUB. No.

Mr. SIMON. So that the money that you had available to you to pay Mr. Schonfeld had to be your gross income less your expenses and after payment of your taxes, is that right?

Mr. TRAUB. I think you are right.

Mr. SIMON. Well, now, what was your income, your taxable income, in the year 1951?

Mr. TRAUB. I can't answer that.

Mr. SIMON. Do you know whether it was \$20,317?

Mr. TRAUB. I do not know.

Mr. SIMON. Do you know whether that is anywhere near it?

Mr. TRAUB. I cannot answer that.

Mr. SIMON. If I told you that your tax return for the year 1951 showed your net income at \$20,317, are you in a position to know whether that is wrong?

Mr. TRAUB. I am not in a position to know whether it was wrong or right, but if you say that is what my tax return shows, it probably is so.

Mr. SIMON. If, instead of being \$20,317, it was, let's say, \$203,170—I have multiplied it by 10—you would know whether it was \$203,000 or \$20,300, wouldn't you?

Mr. TRAUB. Yes: I assume I would.

Mr. SIMON. Are you in a position to say that the \$20,317 that I am advised is shown by your 1951 income-tax return as your income is wrong?

Mr. TRAUB. I didn't say it was wrong, Mr. Simon. I said I don't know the figures. When I grossed X amount of dollars I deducted that before arriving at my taxable income. The amount of moneys that I was paying out on guaranties that I had incurred prior to 1949, and I am still paying those guaranty payments out. I told you that yesterday.

Mr. SIMON. So when you paid Mr. Schonfeld money you considered that as a tax deduction?

Mr. TRAUB. As money that I owed on guaranties; yes.

Mr. SIMON. Who prepared your income-tax returns?

Mr. TRAUB. Mr. Greenberg, Sam Greenberg.

Mr. SIMON. Is he the same auditor that we spoke about yesterday?

Mr. TRAUB. Yes.

Mr. SIMON. You also said yesterday that you had borrowed, I think, \$75,000 from Mr. Kavy and \$75,000 from Mr. Hirsch.

Mr. TRAUB. No; I didn't say \$75,000 from Kavy. I said \$75,000 from Hirsch, and I also borrowed money from Kavy. I think Kavy's loan was about \$60,000.

Mr. SIMON. \$60,000 from Kavy and \$75,000 from Hirsch?

Mr. TRAUB. Yes.

Mr. SIMON. How much of that has been paid back?

Mr. TRAUB. I still owe Mr. Hirsch on that \$75,000, I think either \$7,500 or \$10,000. Kavy I owe about \$12,000.

Mr. SIMON. So you have paid back about \$115,000 on that?

Mr. TRAUB. Yes; over a period of years.

Mr. SIMON. Since 1949?

Mr. TRAUB. Right.

Mr. SIMON. That is in addition to the \$1,200,000 you paid back to Schonfeld?

Mr. TRAUB. That is correct.

Mr. SIMON. I would like to ask you again: Where did you get that \$1,300,000?

Mr. TRAUB. From moneys that the office took in for fees.

Mr. SIMON. Moneys for fees?

Mr. TRAUB. Right. Most of it. I can't give you in the greatest detail where I got it.

Mr. SIMON. What other source of income did you have, Mr. Traub?

Mr. TRAUB. I had no other source of income, but I did salvage some money from those mortgages that I had guaranteed. I remember a particular mortgage of about \$30,000. I salvaged about \$4,000 from it.

Mr. SIMON. Are you a partner in this firm of Dreyer & Traub?

Mr. TRAUB. When you say partner, I am the surviving partner.

Mr. SIMON. Do you have any living partners in the firm?

Mr. TRAUB. I have associates.

Mr. SIMON. Yesterday, I asked you who a man named Cedar was and you said he was your partner.

Mr. TRAUB. Associate.

Senator BUSH. Are you the proprietor of the firm, so to speak?

Mr. TRAUB. Yes, sir.

Senator BUSH. You really own it.

Mr. TRAUB. Yes, sir.

Mr. SIMON. Do you file an individual income-tax return for that business or a partnership return?

Mr. TRAUB. Individual. It is my opinion that I file an individual return.

Mr. SIMON. Do you know?

Mr. TRAUB. I do not.

Mr. SIMON. The records of the Director of Internal Revenue show a partnership return for Dreyer & Traub.

Mr. TRAUB. Then it is a partnership return.

Mr. SIMON. But there are no partners, is that right?

Mr. TRAUB. I did not say that, Mr. Simon. I said I have associates who have an interest in the business with me.

Mr. SIMON. Are they partners or are they employees?

Mr. TRAUB. They are not employees.

Mr. SIMON. Are they partners?

Mr. TRAUB. You may consider them partners, but I consider them partners or associates. I don't make any distinction.

Senator BUSH. Are there any articles of partnership in the firm?

Mr. TRAUB. There is an agreement.

Senator BUSH. Is it in writing?

Mr. TRAUB. Yes, sir.

Senator BUSH. Does it disclose in that agreement that these men that you call associates are in fact partners?

Mr. TRAUB. Yes; I think you can term them partners under that agreement.

Mr. SIMON. As partners, are they entitled to a share in the profits of the firm?

Mr. TRAUB. They are.

Mr. SIMON. And the \$1,300,000 that you used to pay these loans had to come out of your share of the profits of the firm, is that right?

Mr. TRAUB. No, sir. The agreement provides specifically that the partnership or the association is assuming the prior indebtedness that existed prior to February 1949.

Mr. SIMON. That was an indebtedness of the law firm or was it your personal indebtedness?

Mr. TRAUB. My personal indebtedness, but the law firm assumed that obligation. That has been in writing ever since the articles of agreement were written.

Mr. SIMON. Have you been able to find since yesterday morning any written record of these cash payments totaling approximately \$275,000 to Mr. Schonfeld?

Mr. TRAUB. No.

Mr. SIMON. I take it that you reach that \$275,000 estimate by assuming that everything on the cash disbursements ledger in round figures must have gone to Schonfeld, is that correct?

Mr. TRAUB. No, sir. I remember that figure of \$275,000.

Mr. SIMON. You remember it?

Mr. TRAUB. Yes, sir.

Senator BUSH. Mr. Traub, in view of your testimony yesterday and today, the committee believes that we should have the General Accounting Office of the United States audit your books. Will you make those books available to the General Accounting Office?

Mr. SHEINBERG. I would like to say this, sir, if I may: The representatives of the General Accounting Office have been examining Mr. Traub's books at our office, or they did examine them, over a period of 6 or 7 days. There were as many as six men from the General Accounting Office there. The books were made available to them.

As you know, Senator, these are the books of a lawyer. They contain references of a confidential nature relating to other clients, and to that extent should be deemed confidential and not disclosed. At the time these books were made available, they were made available on that understanding, and I believe that understanding was honored by those who did so.

Now to keep these books generally available for a general audit would serve to violate that confidential relationship which Mr. Traub as an attorney is duty bound to maintain. To make them generally available would most certainly render Mr. Traub amenable to censure by our own courts having jurisdiction over the conduct of lawyers.

Senator BUSH. Well, the United States has, unfortunately, quite an interest in this situation. Mr. Traub has not explained satisfactorily how he repaid \$1,600,000, approximately, of debt without paying income taxes on an equivalent amount of income, and in view of the testimony of yesterday and of today it is our opinion that you should make those books available to the General Accounting Office.

I think we can assure you that the confidential relationship between Mr. Traub and his clients will not be jeopardized by this work.

Mr. SHEINBERG. Mr. Senator, I would like to take that under further advisement and under consultation, if necessary, with a group of attorneys. I would like to solicit their opinions on this particular subject because I believe it to be a most vital one.

Senator BUSH. Unless you are willing to agree to turn these over, we shall have to subpoena the books, to have them available tomorrow morning, and I would advise you to follow that course.

Mr. SHEINBERG. So that there can be no misunderstanding, these books have been made available.

Senator BUSH. Then there shouldn't be any objection to making them available in the light of the testimony which we now have.

Mr. SHEINBERG. I would like to finish my statement, if I may.

Senator BUSH. Go ahead.

Mr. SHEINBERG. They were made available under the limitations and restrictions of the informal arrangement between Mr. Simon and Mr. Weisman. I would have no objection to continuing so to make them available at our office for that purpose.

Mr. SIMON. What is the difference between having them in your office and having them in the Government office?

Mr. SHEINBERG. For one thing there is a difference of physical possession of the books. For another thing, it renders both the books and the examination much better available to a keeping of the understanding that the confidences between attorney and other clients, in matters having no relationship to those here under consideration, will be kept in confidence.

For a third thing, it will enable Mr. Traub and those who represent him to present themselves properly before any other body that may conceivably deem the submission of books generally as a censurable act.

I am perfectly willing to continue to keep those books available. Our office has generally been made available, as you know, and I think we have made the representatives of the General Accounting Office quite comfortable there.

Mr. SIMON. I have no reluctance in saying it has been a wholly unsatisfactory arrangement because I am sure, as you know, the books don't tell the story by themselves. What we need in order to find out what the entries mean is to have the books in a place where we can also subpoena the bookkeepers who kept them and the auditors who worked on them and have them explain to the auditors working for this committee what the entries mean.

I see no way that that can be accomplished beyond getting the books in the possession of the Government in the Government Accounting Office.

Mr. SHEINBERG. Could I answer that? I am quite certain that a subpoena issued to the auditors or to the bookkeepers would be honored. Certainly if the subpoena directed their appearance before a hearing of this committee, properly convened and properly presided over by one of the members of the committee, but I do not believe, Mr. Simon, that you would expect a witness to come under subpoena and just give his or her testimony, as the case may be, to an auditor who may be seeking some general information.

Mr. SIMON. They tell me it would take 8 or 10 auditors 3 or 4 weeks to complete their examination. I am sure you don't want Senator Bush to sit all day for 3 or 4 weeks watching 8 or 10 auditors work.

Mr. SHEINBERG. I shouldn't think so but, on the other hand, I am sure if 8 or 10 auditors worked for 3 or 4 weeks on those books they would, within their competence, be able to compile a list of intelligent

questions concerning which you would like answers, and then a hearing could be properly convened at which the questions could be asked.

Senator BUSH. Mr. Traub, I will give you one more chance to say that you will make those books available to the General Accounting Office, but if not I shall have to order a subpoena and have those books produced here at 10 o'clock tomorrow morning.

Mr. TRAUB. Senator, I am advised by my counsel that the books are available to the General Accounting Office.

Senator BUSH. They are not available in the form that the General Accounting Office feels would be most satisfactory, and they should be put in their possession in an office of the United States Government.

Mr. SHEINBERG. Certainly I think you would, on reflection, agree that the books of an attorney of a general nature referring to a substantial number of clients other than those with which this committee is here interested could not properly and ethically be submitted and the possession of them relinquished to the General Accounting Office.

We offered to continue making them available, as we have made them available in the past. The representatives of the General Accounting Office in whatever number Mr. Simon sees fit are welcome at our office, and they can there examine them.

Mr. SIMON. Certainly you don't expect us to issue subpoenas returnable in your office and to examine witnesses in your office, do you?

Mr. SHEINBERG. I wouldn't think so, Mr. Simon, but—

Mr. SIMON. So we must issue subpoenas for the bookkeepers and auditors who worked on them, bring them in to the General Accounting Office and ask them to tell us what these entries mean.

Mr. SHEINBERG. You wouldn't on the other hand expect that the bookkeepers and accountants would continue to sit under oath with your auditors, not at a hearing properly convened for the period of 3 weeks that you deem it necessary to analyze these books.

Again I make this suggestion, and I make it with all humility, and I believe it is a feasible one and a workable one: have your auditors go and look at the books.

Mr. SIMON. They have done that for about 8 days and there are, as you say, 6 of them, and they can't make head or tail out of the books. We have asked Mr. Traub whose books they are; what this, that, and the other entry is for, and he says either "I don't know," or "It probably went to Schonfeld." The only way we can find out what the books mean is to bring the bookkeepers in who kept the books and put them under oath and ask them what they mean. We can do that only in a Government property.

Mr. SHEINBERG. I have no quarrel with that observation, but I should point out to you that I would have every right to assume that the questions concerning which you would be asking the bookkeepers and the auditors will have been formulated after an examination of the books, and at the point when the questions are to be asked the books will be made available to the committee so that these people can be interrogated about the books.

But to give up the books generally to the auditors of the General Accounting Office without further control over them, I as an attorney believe would be a violation by Mr. Traub of his obligation to his other clients and a breach of the ethics of our profession.

Mr. SIMON. I assume you realize that the suggestion you are making is in effect that this committee discontinue all of its other investigations and instead of holding hearings on other matters that the Senators sit and hold hearings only on this matter.

Mr. SHEINBERG. On the contrary, I thought I suggested a procedure by which the committee would certainly be at liberty to go ahead with its other very vital work.

Mr. SIMON. The only way we can do that is if we can turn 8 or 10 General Accounting Office auditors loose on these books and have them have available the information which I hope the bookkeepers can give them and come back and report to the chairman of the committee on what they found in the books and what the books mean.

Mr. SHEINBERG. Are you now suggesting that the bookkeepers and auditors will be making this information available to the auditors from the General Accounting Office?

Mr. SIMON. I certainly am.

Mr. SHEINBERG. Informally and not under oath?

Mr. SIMON. It seems to me it is this committee's concern how we get this information from the bookkeepers and whether the committee thinks that a former bookkeeper should be put under oath or whether the former bookkeeper should be questioned informally is a matter for the judgment of the committee.

Mr. SHEINBERG. I am not attempting to exercise my judgment or substitute it for the chairman of the committee or of the committee, but if these bookkeepers are to be informally interrogated, that can be done as effectively in our office where the General Accounting Office auditors are as in the General Accounting offices, and by the same token and at the same time a control over the books can be maintained.

Mr. SIMON. I can only say that we could argue this all afternoon and all week. It just hasn't worked. We tried it once and it didn't work. There is no point in our trying it again.

Senator BUSH. Mr. Traub, I am sorry to say that we do not feel that you have cooperated satisfactorily with this committee yesterday in particular or today. We don't get the information from you that certainly you should have had available for this committee.

The process that your counsel has suggested has been tried and found unsatisfactory. For that reason I shall have to rule that we will subpoena those books, and we want them by 10 o'clock tomorrow morning.

Are there any further questions?

Mr. SIMON. No, sir.

Mr. SHEINBERG. I would like to say for the record that my silence is not to be deemed any waiver of rights.

Senator BUSH. We don't want you to waive any rights.

Mr. SHEINBERG. On the part of my client, I should say.

Senator BUSH. You have made opposition to the decision which I have just announced, but we feel that the matter is of such grave importance that the United States has such an important interest in the affairs of this gentleman and that the questions which we have asked him have been so unsatisfactorily answered that we have got to get to the bottom of the situation. The only way it appears feasible to do it is to subpoena these books and have them.

That will close the hearing as far as you gentlemen are concerned.

Is Mr. Stanley Cooper here?

Will you please come forward, Mr. Cooper?

Mr. DORRIS. I am Abraham Dorris, an attorney. I represent Mr. Cooper.

Senator BUSH. Very well. We were going to say that we would like you to be here tomorrow morning at 11 o'clock. Is that satisfactory?

Does that relieve you of any statement you want to make?

Mr. DORRIS. I very much thank you, sir, because we don't want to sit idly by all afternoon. These are small fry, in a way. They are busy people and I am a busy man, too. I want to say, by way of introduction, that I have been a State comptroller and a deputy city comptroller, having charge of investigations, and we want to cooperate.

Senator BUSH. Thank you very much. We appreciate that. We will see you at 11 o'clock tomorrow morning.

Mr. DORRIS. Will we go on at 11?

Senator BUSH. Approximately. Please be here at 11. We won't keep you very long, because we want to terminate these hearings tomorrow before 12:30, if we can.

Mr. Raymond Hobson, will you come to the witness stand, please?

Will you raise your right hand, please? Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF RAYMOND S. HOBSON, ST. ALBANS,
LONG ISLAND, N. Y.**

Mr. HOBSON. I do.

Senator BUSH. Sit down, please, and give your correct name and address to the clerk.

Mr. HOBSON. Raymond S. Hobson, 187-45 Mangin Avenue, St. Albans, Long Island.

Senator BUSH. Mr. Hogue, will you question the witness?

Mr. HOGUE. When did you move to your present home?

Mr. HOBSON. About September 1 of last year.

Mr. HOGUE. And shortly thereafter did a man named Harold Orland approach you?

Mr. HOBSON. Yes, sir.

Mr. HOGUE. Did he approach you at your home?

Mr. HOBSON. Yes, sir.

Mr. HOGUE. And what company did he represent? Was that the Approved Home Loan Developers, Inc.?

Mr. HOBSON. That is correct.

Mr. HOGUE. At 69-12 Austin Street, Forest Hills?

Mr. HOBSON. Correct.

Mr. HOGUE. What was his purpose in approaching you?

Mr. HOBSON. He wanted to put a new roof and siding on my house and repaint it and use it as a demonstration house.

Mr. HOGUE. Did he make any promises to you in the event that you signed a contract for work on your house?

Mr. HOBSON. Yes, sir. Every house in the immediate area that was to be done with this same type of siding, the paint job was supposed to be guaranteed for 10 or 15 years, I was to get a \$50 bonus whether

I recommended the house or whether it was done as a result of people seeing my house.

Mr. HOGUE. Did you actually sign a contract?

Mr. HOBSON. Yes, sir.

Mr. HOGUE. How much was involved?

Mr. HOBSON. About \$1,060.

Mr. HOGUE. Did you ever receive any payments from Mr. Orland or from the Approved Home Developers?

Mr. HOBSON. No, sir; I never saw them after that day.

Mr. HOGUE. Was the job a satisfactory one, the work that was done on the house?

Mr. HOBSON. It wasn't.

Mr. HOGUE. In what respect was it not satisfactory?

Mr. HOBSON. In that the painters didn't come back to finish the garage. They only put the primer coat of paint on the garage and didn't come back to put on the other paint job.

Mr. HOGUE. You say you signed a contract?

Mr. HOBSON. I signed a contract.

Mr. HOGUE. Do you recall signing any other papers?

Mr. HOBSON. Yes, sir. There was several of them in a pile, the immediate one concerning the paint job on top, and he just flipped them and he said, "This is for this and that," and to sign them.

Mr. HOGUE. When the job was completed did you sign what they call a completion certificate?

Mr. HOBSON. No.

Mr. HOGUE. Did you, as a matter of fact, sign any papers after the day on which you signed the original contract?

Mr. HOBSON. No; I didn't.

Mr. HOGUE. So that if you signed a completion certificate you must have signed it not knowing what you signed; is that correct?

Mr. HOBSON. That is right.

Mr. HOGUE. Did Mr. Orland make any representations to you or any statement to you as to what papers you were signing at the time?

Mr. HOBSON. No; generally he said this is for the FHA loan. I am quite sure he didn't say anything about completion papers because I would have stopped there.

Mr. HOGUE. Have you ever gotten any satisfaction from this company with respect to the work?

Mr. HOBSON. No; I called twice, and was told that they would come back at a later date to finish the garage, but they never showed up and I took it up with my lawyer.

Mr. HOGUE. What happened after that?

Mr. HOBSON. He wrote them a letter. It was unanswered. He had a subpoena. I was trying to serve it several times but was never able to get them.

Mr. HOGUE. You have never been able to locate the company since then?

Mr. HOBSON. No. I understand they have moved.

Mr. HOGUE. Were you notified by any bank that you owed them the money?

Mr. HOBSON. I continued to make the monthly payments to the bank.

Mr. HOGUE. That is all I have.

Senator BUSH. How much are you paying a month?

Mr. HOBSON. I think it is \$33.46.

Senator BUSH. Every month?

Mr. HOBSON. Every month.

Mr. SIMON. What is the total amount of this contract?

Mr. HOBSON. \$1,060.

Mr. SIMON. If you had had the work completed would it have been \$1,060 worth of work?

Mr. HOBSON. That was supposed to be the complete job.

Mr. SIMON. Do you think that is a fair price for the work? I guess you did at the time, or you wouldn't have signed it.

Mr. HOBSON. Yes; but they didn't do the trim work, or the eaves, or the garage. None of that was done.

Mr. SIMON. Do you know whether you did sign a completion certificate before they ever started the work?

Mr. HOBSON. It is possible that I did the day I signed the first contract. There were several papers I signed.

Mr. SIMON. Of course, if you don't make these payments you could lose your home?

Mr. HOBSON. Yes, sir.

Mr. SIMON. Did you ever get a dime out of them for sales to other homeowners?

Mr. HOBSON. No, sir.

Mr. SIMON. Do you know whether they made any other sales in your neighborhood?

Mr. HOBSON. No, sir; I have not been around to check.

Mr. SIMON. Do you know whether anybody ever tried to sell them in your neighborhood?

Mr. HOBSON. No, sir. I was out around the neighborhood. If I would see a house of that type I would know.

Mr. SIMON. Where do you work, Mr. Hobson?

Mr. HOBSON. Post office.

Mr. SIMON. How long have you been at the post office?

Mr. HOBSON. About 2 years.

Mr. SIMON. Where did you work before that?

Mr. HOBSON. As a bartender.

Mr. SIMON. I gather that \$1,060 is a lot of money to you; is that right?

Mr. HOBSON. I suppose so; yes, sir.

Mr. SIMON. Thank you.

Senator BUSH. Any further questions, Mr. Hogue?

Mr. HOGUE. No.

Senator BUSH. Mr. Hobson, I want to thank you on behalf of the committee for coming in here today and giving us the benefit of your testimony. We appreciate your cooperation very much.

Mr. HOBSON. Thank you, sir.

Senator BUSH. The next witness is Mrs. John Blystad.

Will you raise your right hand, please? Do you solemnly swear that the information which you will give to this committee, the testimony you will give to this committee, shall be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF MRS. JOHN BLYSTAD, FRANKLIN SQUARE,
LONG ISLAND, N. Y.**

Mrs. BLYSTAD. I do.

Senator BUSH. Will you give your correct name and address to the clerk, and speak as close as you can to this little device?

Mrs. BLYSTAD. Astrid Blystad, 136 Court House Road, Franklin Square, Long Island.

Mr. SIMON. Could you talk a little louder, Mrs. Blystad. If you would get back a little bit from the microphone and talk louder, we would hear better.

Mr. HOGUE. Mrs. Blystad, were you approached in January 1952 by a Mr. Allen Stewart of the Approved Home Developers?

Mrs. BLYSTAD. Yes, sir.

Mr. HOGUE. And what was the purpose of Mr. Stewart's call at your house?

Mrs. BLYSTAD. To paint the stucco on the house and fix a new roof.

Senator BUSH. To repair the stucco?

Mrs. BLYSTAD. Yes, and shingle the roof on the house.

Senator BUSH. Shingle the roof?

Mrs. BLYSTAD. Yes.

Mr. HOGUE. There was also to be some painting, as well?

Mrs. BLYSTAD. Painting on the stucco.

Mr. HOGUE. As I understand, a storm had blown some shingles off the roof before?

Mrs. BLYSTAD. Yes, and we repaired it and it didn't look good, so we wanted to fix it.

Mr. HOGUE. At the time Mr. Stewart approached you, did he make any promises to you if you would sign a contract?

Mrs. BLYSTAD. Yes. He was going to give us some money for each customer he could select for the house. He was going to use us as the model house. He would give us 5 percent, I believe, for a period of 3 years and the job wouldn't cost us a cent.

Mr. HOGUE. In other words, what you are saying is that he said that your house was in a good location, in substance, and they would like to use it as an exhibit house, and if you would permit them to do the work and sign a contract for the work, you would be paid for the use of the house as an exhibit house?

Mrs. BLYSTAD. That is right.

Mr. HOGUE. Provided they got other jobs, similar jobs in the vicinity?

Mrs. BLYSTAD. That is right.

Mr. HOGUE. As a matter of fact, a notation to that effect was entered on the back of the contract you signed; was it not?

Mrs. BLYSTAD. That is right.

Mr. HOGUE. Did you ever receive any money from the Approved Home Developers?

Mrs. BLYSTAD. No; I never seen them since.

Mr. HOGUE. Do you know, as a matter of fact, whether they did any other work in the vicinity of your house?

Mrs. BLYSTAD. That I wouldn't know, sir.

Mr. HOGUE. You don't know?

Mrs. BLYSTAD. No.

Mr. HOGUE. When did this occur, what time of the day did this occur when you signed the contract?

Mrs. BLYSTAD. They come to the house around 9 o'clock that night and left about 1.

Mr. HOGUE. About 1 o'clock in the morning?

Mrs. BLYSTAD. Yes.

Mr. SIMON. It took them 4 hours for them to sell you on this project?

Mrs. BLYSTAD. Yes. My son come home about 1:30 in the morning and I naturally told him about it, what had happened. He said, "Mom, I travel around and I know that a lot of people in the neighborhood have been gypped by those people, because you would be out \$1,500."

He said to cancel the job in the morning, which I would be better off.

Mr. SIMON. I was going to ask you what you did the following morning. Your son suggested that you do something about it.

Senator BUSH. He suggested that you cancel it?

Mrs. BLYSTAD. Yes.

Senator BUSH. What did you do?

Mrs. BLYSTAD. I called the concern up in the morning, between 7 and 8, and asked for Mr. Stewart. They said he was too big a man to answer anyone like me, but she could take the message. When he come home he would contact me.

I told her what it was all about, that my husband and I had talked it over and we couldn't afford to do the job, and for him please to call me so I could get my contract that I signed back from them.

He called around 5 or 6 that afternoon, and I told him the same as I told you, and he says it would be impossible, I would have to pay them and do the job.

I said, "No," and I insisted that he please give me the contract back again that I signed.

He said "No," and he would take us to court, which he did.

In the meantime that morning I went to the bank and canceled the order for the FHA so they wouldn't give him any money on the note I signed.

Mr. SIMON. What finally happened, Mrs. Blystad?

Mrs. BLYSTAD. Well, after about 3 months—no, I am sorry—after a month—in the meantime I got a lawyer's letter from them and told me that I should pay them and they demanded \$450. Finally I got a summons and with the summons I had to take to the lawyer, I paid him \$150, and finally I said I would settle for \$200 to them.

Mr. SIMON. You paid \$200 to those people for doing nothing?

Mrs. BLYSTAD. Yes.

Mr. SIMON. And you had to pay your own lawyer \$150?

Mrs. BLYSTAD. Yes.

Senator BUSH. Did you get your papers back then, Mrs. Blystad?

Mrs. BLYSTAD. Yes. The Senator has my papers. I got a release from the court on the \$200 and I have the summons there.

Mr. SIMON. They were going to charge you \$1,500 to do this work on your house?

Mrs. BLYSTAD. Right.

Mr. SIMON. Did they tell you that they would sell a lot of jobs in your neighborhood so that your commissions would probably pay you back that \$1,500?

Mrs. BLYSTAD. That is right. The job wouldn't cost me anything.

Mr. SIMON. That is, you could get the job done and pay them the \$1,500 and you would get all the money back by the commissions on your model house?

Mrs. BLYSTAD. That is right.

Mr. SIMON. Instead of that you didn't get the work and it cost you \$350?

Mrs. BLYSTAD. That is right.

Senator BUSH. Thank you very much, Mrs. Blystad. The committee very much appreciates your coming here to cooperate with us.

Is Mr. Louis Maiorano here?

Will you raise your right hand, please? Do you solemnly swear that the testimony you will give to this committee shall be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF LOUIS MAIORANO, HAZLETON, PA.

Mr. MAIORANO. Yes, sir.

Senator BUSH. Please be seated.

Give your correct name and your address to the clerk.

Mr. MAIORANO. Louis Maiorano, 620 North Wyoming Street, Hazleton, Pa.

Mr. HOGUE. Mr. Maiorano, in November of 1953 were you approached by a salesman named Larry Long of the Keystone Home Improvement Co.?

Mr. MAIORANO. Yes, sir.

Mr. HOGUE. And what did Mr. Long try to sell you?

Mr. MAIORANO. Well, he tried to sell me some siding, and being that we knew Mr. Long we gave him the contract before we give it to the first fellow who was a little bit too high in his price.

Mr. HOGUE. This was for siding on your house; is that it?

Mr. MAIORANO. That is right?

Mr. HOGUE. Are you familiar with that type of work, how that work is placed on the house?

Mr. MAIORANO. Yes, I have seen other work done and I couldn't be there at the time because I operated a service station at the time.

They went ahead and they done the work, which was very faulty, as the picture shows there.

Mr. SIMON. What do you mean by it was faulty?

Mr. MAIORANO. The fault is that the shingles are falling off, coming down, endangering people's lives on the sidewalk, and also the lives of my family, through the backyard.

Mr. HOGUE. You have given us some pictures of your house showing what actually happened?

Mr. MAIORANO. Yes, sir.

Mr. HOGUE. Let me hand those to you. The first picture, as I understand it, is one side of your house with some of the siding that has fallen off between the windows?

Mr. MAIORANO. Yes, sir.

Mr. HOGUE. When did that occur?

Mr. MAIORANO. This occurred July 31 of 1954, at 10:30 in the morning.

Mr. HOGUE. That was approximately six or more months after the contract had been signed?

Mr. MAIORANO. Yes, sir.

Mr. HOGUE. Had there been any other defects that developed before that time?

Mr. MAIORANO. Yes, sir, the entire back had fallen down.

Mr. HOGUE. That is, on the other side of the house?

Mr. MAIORANO. No, that is the entire back.

Mr. HOGUE. It had fallen down completely?

Mr. MAIORANO. Yes, sir.

Mr. HOGUE. Can you just run through those chronologically and tell us what subsequently developed in the work on the house?

Mr. MAIORANO. Well, they didn't give me the job that they had promised me, that was the heavier aluminum channel. Due to windstorm—every little windstorm that would come along just seemed to rip them and send them out to the street.

Mr. HOGUE. Is this what you are referring to as the heavy aluminum?

Mr. MAIORANO. Yes, sir.

Mr. HOGUE. Did you subsequently investigate and find from local builders that this is the type of aluminum that would do a satisfactory job?

Mr. MAIORANO. That is right.

Mr. HOGUE. And is this what you have handed up, the type of aluminum that was actually put on the house?

Mr. MAIORANO. Yes.

Mr. HOGUE. Did you find anything else about the nails?

Mr. MAIORANO. The nails, yes. It is the L-nail that they should have used and they used a tarpaper nail.

Mr. HOGUE. Is this the type of nail they used?

Mr. MAIORANO. Yes, sir.

Mr. HOGUE. In layman's sense, they use a short tack?

Mr. MAIORANO. That is correct.

Mr. HOGUE. Have you been given any satisfaction?

Mr. MAIORANO. Well, I wrote to them and I wrote the Grammatan National Bank. I explained to them, like a gentleman, I hope, and they seemed to send back some smart remarks in a letter that they were going to sell my home, or my car, or the furniture, if I didn't make the payments.

I am not trying to get out of paying, but I want this work properly done.

Mr. HOGUE. When was that picture taken?

Mr. MAIORANO. This was taken around May of this year.

Mr. HOGUE. That was the condition of the house at that time?

Mr. MAIORANO. Yes, that is the condition that is falling yet, but that was taken yesterday. I think I have sent some pictures to Senator Capehart in Washington.

Mr. HOGUE. Mr. Maiorano, are you familiar with what a completion certificate is?

Mr. MAIORANO. Well, I have seen them; yes, sir.

Mr. HOGUE. Do you realize that it is necessary for anyone who is selling a FHA finance job to obtain the signature of the owner on a completion certificate before he can go to the bank and get the money from the sale of the note which the home owner signs?

Mr. MAIORANO. Yes, sir.

Mr. HOGUE. Do you have any recollection of signing a completion certificate?

Mr. MAIORANO. I did not sign a completion certificate.

Mr. HOGUE. You did not?

Mr. MAIORANO. No, I did not.

Mr. HOGUE. Did you sign papers on the day on which you signed the contract?

Mr. MAIORANO. Well, yes, I have signed the contract and there was another small paper, about the size of an envelope, which I think was the note, but outside of that I do not remember any other papers I signed.

Mr. HOGUE. Did you sign any papers subsequently? Has this company ever approached you or any representative of it ever approached you and asked you to sign papers after you signed the contract originally?

Mr. MAIORANO. No, sir.

Mr. HOGUE. So you actually don't remember whether you signed a completion certificate on the day of signing the contract?

Mr. MAIORANO. I don't.

Mr. HOGUE. But you didn't sign any papers subsequently?

Mr. MAIORANO. No.

Mr. HOGUE. Then it is perfectly possible that you may have signed this completion certificate on the day of signing the contract?

Mr. MAIORANO. I may have; yes.

Mr. HOGUE. But if you did, did you know what you were signing at the time?

Mr. MAIORANO. No, sir; he did not tell me.

Mr. HOGUE. Did the salesman who called on you make any statement as to what papers you were signing at the time?

Mr. MAIORANO. No, he didn't. He just told me to sign the contract and the note.

Mr. HOGUE. So if you signed it at that time you were not aware of what you were signing?

Mr. MAIORANO. That is right.

Senator BUSH. What is the status of this situation now?

Mr. MAIORANO. Well, the holdup is I am just not getting any action from the Keystone.

Mr. HOGUE. Are you making your monthly payments?

Mr. MAIORANO. I am up until my lawyer told me to stop last month.

Senator BUSH. Any further questions?

Mr. SIMON. Do I understand correctly you work in a service station?

Mr. MAIORANO. I did.

Mr. SIMON. You did?

Mr. MAIORANO. Yes.

Mr. SIMON. What do you do now?

Mr. MAIORANO. I am unemployed.

Senator BUSH. Are there any further questions? If not, we thank you very much. The committee appreciates your cooperation.

Senator BUSH. Mr. Louis Garthson is the next witness.

Mr. Garthson, will you raise your right hand, please? Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF LOUIS GARTHSON, CREATIVE HOME MODERNIZERS OF NEW JERSEY, ACCOMPANIED BY MORDECAI SARBONE, COUNSEL

Mr. GARTHSON. I do, sir.

Senator BUSH. Please be seated.

Your name, sir?

Mr. SARBONE. Mordecai Sarbone. I am an attorney-at-law, representing Mr. Garthson.

Senator BUSH. Will you give your correct name and address to the clerk, please?

Mr. GARTHSON. Louis Samuel Garthson.

Senator BUSH. And your address?

Mr. GARTHSON. 7305 Boulevard East, North Bergen, N. J.

Mr. HOGUE. Mr. Garthson, I understand you own a 50 percent interest in Creative Home Modernizers of New Jersey.

Mr. GARTHSON. That is correct.

Mr. HOGUE. And you are also an officer of that company?

Mr. GARTHSON. Yes, sir.

Mr. HOGUE. What office do you hold?

Mr. GARTHSON. Secretary and treasurer.

Mr. HOGUE. When was that company organized, early in 1953?

Mr. GARTHSON. Late in 1953, if I recall, sir.

Mr. HOGUE. What is the business of that company?

Mr. GARTHSON. Home improvement.

Mr. HOGUE. Did it specialize in coating products?

Mr. GARTHSON. No, sir, roofing, siding, carpentry work, masonry work.

Mr. HOGUE. Before this corporation was organized, were you associated with any other corporations that were in the same field?

Mr. GARTHSON. Yes, sir.

Mr. HOGUE. Was Protexawall products one of those?

Mr. GARTHSON. One of which?

Mr. HOGUE. One of those companies with which you were associated.

Mr. GARTHSON. Yes, sir.

Mr. HOGUE. What was its business?

Mr. GARTHSON. National distributor.

Mr. HOGUE. Of what?

Mr. GARTHSON. Of a coating product.

Mr. HOGUE. And you were president and a director of that company?

Mr. GARTHSON. Yes, sir.

Mr. HOGUE. Were you also associated with Permawall, Inc.?

Mr. GARTHSON. Yes, sir.

Mr. HOGUE. And for how long a period of time were you associated with them?

Mr. GARTHSON. Approximately from December of 1950 to April, I believe it was, of 1951, 1952.

Mr. HOGUE. Did it also do business in the home-improvement field?

Mr. GARTHSON. Yes, sir.

Mr. HOGUE. And were you associated with Interstate Applicators?

Mr. GARTHSON. Yes, sir.

Mr. HOGUE. Was that corporation organized by a group, including you?

Mr. GARTHSON. Yes, sir.

Mr. HOGUE. What was its business?

Mr. GARTHSON. Also sales organization for home improvement products.

Mr. HOGUE. Prior to your affiliation with these companies, had you worked for the Pioneer Home Improvement Co.?

Mr. GARTHSON. Yes, sir.

Mr. HOGUE. Was that the company of which Mr. Jerome Brett was president?

Mr. GARTHSON. I wouldn't know what his position was, sir.

Mr. HOGUE. But he was an officer of that company?

Mr. GARTHSON. I wouldn't know, sir.

Mr. HOGUE. He was associated with it?

Mr. GARTHSON. Yes, sir.

Mr. HOGUE. Did Mr. Brett's brother, Michael, ever do work for you?

Mr. GARTHSON. Mr. Brett's brother?

Mr. HOGUE. Pardon me. What was your primary work for these various corporations? Were you engaged in selling?

Mr. GARTHSON. Will you repeat that?

Mr. HOGUE. What was your primary work with those corporations?

Mr. GARTHSON. All various capacities.

Mr. HOGUE. Did you do selling for Pioneer Home Improvement Co.?

Mr. GARTHSON. Yes, sir.

Mr. HOGUE. And did you do selling for Protexawall?

Mr. GARTHSON. Protexawall was a national product sold to dealers only, if that is what you are asking, sir. It had nothing to do with home improvement. It was a product that was sold to dealers.

Mr. HOGUE. Who actually applied the product on the home; how was that done? Didn't one of your organizations actually act as a contractor?

Mr. GARTHSON. Yes, sir.

Mr. HOGUE. Which company?

Mr. GARTHSON. Renuit Co.

Mr. HOGUE. Did you do any selling for them?

Mr. GARTHSON. No, sir.

Mr. HOGUE. Did you do any selling for Protexawall?

Mr. GARTHSON. What type of selling, sir?

Mr. HOGUE. Any type of selling.

Mr. GARTHSON. Selling to a retailer or selling to a merchant or selling to a homeowner?

Mr. HOGUE. Selling to a homeowner.

Mr. GARTHSON. It was never sold to a homeowner.

Mr. HOGUE. You have actually been engaged in selling to homes over a period of years, have you not?

Mr. GARTHSON. Yes, sir.

Mr. HOGUE. In 1951 did you conduct a school for salesmen?

Mr. GARTHSON. No, sir.

Mr. HOGUE. Did you run a school for salesmen?

Mr. GARTHSON. One of the corporations had a school for salesmen.

Mr. HOGUE. Which was that?

Mr. GARTHSON. Permawall.

Mr. HOGUE. How did you come to start that?

Mr. GARTHSON. How did I come to start it?

Mr. HOGUE. Yes.

Mr. GARTHSON. What was the purpose of starting it?

Mr. HOGUE. I didn't ask you the purpose. Did anyone suggest that you start it? Specifically, did Mr. Brett, who testified here this morning, suggest or have anything to do with that school?

Mr. GARTHSON. No, sir.

Mr. HOGUE. He had nothing to do with it?

Mr. GARTHSON. No, sir.

Mr. HOGUE. Who were the instructors at the school?

Mr. GARTHSON. Employees of the corporation, various employees.

Mr. HOGUE. Can you name a few of them?

Mr. GARTHSON. Jack Peltz, a Mr. Keller—I think primarily they were the two instructors.

Mr. HOGUE. Didn't you yourself do some instructing?

Mr. GARTHSON. No, sir.

Mr. HOGUE. You did not?

Mr. GARTHSON. No, sir.

Mr. HOGUE. Did you have anything to do with any of the literature or any of the pamphlets that were given to salesmen at those meetings?

Mr. GARTHSON. I had something to do with the literature.

Mr. HOGUE. Are you familiar with this document which I have in my hand, which is approximately seven pages of mimeographed material? (See p. 480.)

Mr. SARBONE. May we see it, please?

Mr. HOGUE. Yes. I hand it to you.

Didn't you identify those papers in our executive session?

Mr. GARTHSON. I did, sir; but I didn't go over them. I identified it by just a casual glance.

There are some things here that don't look familiar to me. I am trying to identify some of it.

Mr. HOGUE. You don't have any question but that they are all one set of papers?

Mr. GARTHSON. Yes; I do at this particular moment.

Mr. HOGUE. You will note that they are all numbered consecutively; isn't that correct?

Mr. GARTHSON. Yes, sir.

Mr. HOGUE. Do they all appear to be similar in mimeographing, similar type?

Mr. GARTHSON. Yes, sir. Some of this looks familiar and some of don't.

Mr. HOGUE. You don't mean to deny that these are not copies of the papers that were used at that school?

Mr. GARTHSON. I can't answer it other than the way I answered it. I say some looks familiar and some of it does not.

Mr. HOGUE. Well, is this portion of the papers familiar:

There has been an extensive search made in your neighborhood for the proper type of homes and homeowners who would fit into our picture for our advertising program. You folks have been highly recommended on our point system of choice through the survey made by our representatives.

Does that sound familiar to you?

Mr. GARTHSON. It sounds familiar, sir.

Mr. HOGUE. What was this point system of choice?

Mr. GARTHSON. When the men went into the field and checked an area, they would try to pick out houses that were outstanding in that area, that would photograph well, that would be conducive to the type of work we were interested in introducing at that particular time, because it was a brand-new product.

Mr. HOGUE. You are sure that they actually did that?

Mr. GARTHSON. They were instructed to do such.

Mr. HOGUE. Did you ever hear of a case or ever have any complaint in any of your organizations in which the same type of approach was made in the same particular area?

Mr. GARTHSON. I don't follow you, sir.

Mr. HOGUE. Did you ever have any complaints made to any of your organizations that a model-home approach had been used?

Mr. GARTHSON. No, sir.

Mr. HOGUE. You never had?

Mr. GARTHSON. No, sir.

Mr. HOGUE. I see that this document has certain methods of closing a sale explained in it. Clause No. 2 reads:

As I explained earlier in my program, we compensated you for various privileges you allow us for advertising, which we pay you in cash, or you deduct from the cost of the home. First, we pay a sales commission of \$50; next, we pay you \$50 for your endorsements; next, we pay you \$50 for allowing us to display a small sign on your property, and we pay you \$50 for the use of the picture we use in our program—a total of \$200, leaving a cost of only \$900.

Is that the type of approach that was taught in that school?

Mr. GARTHSON. That is not an approach, sir. That is not our interpretation of an approach, sir. If you have gone through those documents, the sale up to that point, as we see it, has been consummated. This is an adjustment of price. That sale has been consummated. Those people were not approached with the idea of getting those benefits.

Mr. HOGUE. In other words, clause No. 2 is supposed to be used when the sale has been consummated?

Mr. GARTHSON. That is correct.

Mr. HOGUE. Why does clause No. 2 end on these instructions:

If there are further objections to the cost rate of \$900, again put your contract aside and say, "Mr. and Mrs. Prospect, you are not paying \$900. You forgot to deduct \$200 that your representative Mr. So and So offered you when he spoke to you."

That does not sound like a sale has been made, does it, to you?

Mr. GARTHSON. Prior to that, if you have it there, you will find that the salesman has asked the customer if they like the job, does it meet with their approval and if the price meets with their satisfaction, are they satisfied to go ahead with the job.

Mr. HOGUE. If they like the job as represented?

Mr. GARTHSON. That is right.

Mr. HOGUE. But isn't it true that these so-called clauses 1, 2, and 3 are only for use in the event the sale is not closed by a description of what is going to be done?

Mr. GARTHSON. The purpose there is only to lower the price. It was a price arrangement to make a price agreement. The sale has been agreed upon, the people like the job, they want the work done on the property. It is a question of price.

Mr. HOGUE. I don't think that could possibly be so, because it is not stated in those terms here.

Mr. GARTHSON. Yes; it is there.

Mr. HOGUE. What does the word "close" mean to you? What do you do when you close a sale?

Mr. GARTHSON. When a person agrees that they want the work done, that is a close.

Mr. HOGUE. These are closes then? In other words, they are methods or techniques to obtain a sale, as an inducement to the sale, is that not right?

Mr. GARTHSON. No, sir. That is not our interpretation of selling.

Mr. HOGUE. You just defined the word "close" meaning in effect an inducement to close the contract.

Mr. GARTHSON. They have agreed prior to that that they want the work done on their property. In that "close" it specifies your picking out a certain portion of it and you are eliminating the portion of that sales talk where they have asked the customer, "Do you want the work done in your house, do you like what we are going to do, does it meet with your approval?" And it says if they don't say "yes," "Do not go any further." If they say "Yes," then go further and consummate the deal. If they don't like it, they are not going any further.

Mr. HOGUE. That is inconsistent with what you said in defining the word "close" to me a few minutes ago.

Mr. GARTHSON. Then my interpretation of the word "close" and yours are different, sir.

Mr. SIMON. Did your salesmen operate on the par basis?

Mr. GARTHSON. At that time; no, sir.

Mr. SIMON. Have they ever operated on the par basis?

Mr. GARTHSON. Yes, sir.

Mr. SIMON. Under that you fix the price and anything they can get above the price is their commission?

Mr. GARTHSON. That is right, sir.

Mr. SIMON. Have any of these companies ever operated fraudulently?

Mr. GARTHSON. No, sir.

Mr. SIMON. Were any of your companies ever indicted for fraud under the New Jersey State law?

Mr. GARTHSON. No, sir.

Mr. SIMON. How about you, yourself?

Mr. GARTHSON. Larceny was the word used, not fraud.

Mr. SIMON. You tell us about it, then.

Mr. GARTHSON. The corporations were indicted for larceny and the members of the corporation, the officers of the corporation were indicted.

Mr. SIMON. In connection with these transactions?

Mr. GARTHSON. No, sir.

Mr. SIMON. What were the transactions?

Mr. GARTHSON. The indictment was on Interstate Applicators where contractors sold jobs to some people, the job was subcontracted through Interstate Applicators, they did the work as the contract called for.

Mr. SIMON. Why was Interstate Applicators indicted for larceny then?

Mr. SARBONE. I object to that. He cannot answer that question as to why they were indicted.

Mr. SIMON. Did they plead guilty?

Mr. GARTHSON. The corporations pleaded guilty.

Mr. SIMON. Did you plead guilty?

Mr. GARTHSON. No, sir.

Mr. SIMON. Were you tried?

Mr. GARTHSON. No, sir.

Mr. SIMON. What happened?

Mr. GARTHSON. We were nolle prossed.

Mr. SIMON. The corporations, how many of them pleaded guilty?

Mr. GARTHSON. Two.

Mr. SIMON. What were they?

Mr. GARTHSON. Interstate and Protexawall.

Mr. SIMON. Why did they plead guilty?

Mr. GARTHSON. The lawyer recommended that that was the procedure to follow, against my wishes.

Mr. SIMON. You knew you were innocent?

Mr. GARTHSON. They definitely were, sir.

Mr. SIMON. What did they do for which they pleaded guilty?

Mr. GARTHSON. What did who do?

Mr. SIMON. The corporations?

Mr. GARTHSON. They did nothing other than follow the running after business, that is all. They did nothing at all.

Mr. SIMON. What did they plead guilty of doing?

Mr. GARTHSON. That was the recommendation of a lawyer?

Senator BUSH. He has asked you what did they plead guilty to, guilty of what?

Mr. GARTHSON. They pleaded guilty to the indictment of larceny.

Mr. SIMON. What is the larceny that they were charged with to which they pleaded guilty?

Mr. GARTHSON. I don't know.

Mr. SIMON. You don't know?

Mr. GARTHSON. No, sir.

Mr. SIMON. You don't have any idea what they were accused of although you know that they pleaded guilty?

Mr. GARTHSON. I would have to read the indictment. I am not a lawyer.

Mr. SIMON. What is your connection with these two companies?

Mr. GARTHSON. On Protexawall products I was the president. On Interstate I was not an officer, I was a director, I believe.

Mr. SIMON. How much of the stock did you own?

Mr. GARTHSON. 33 $\frac{1}{3}$ percent of Interstate, nothing on Protexawall.

Mr. SIMON. Let's take the company that you were the president of.

Mr. GARTHSON. Yes, sir.

Mr. SIMON. That company was indicted for larceny?

Mr. GARTHSON. That is right, sir.

Mr. SIMON. And it pleaded guilty?

Mr. GARTHSON. Yes, sir.

Mr. SIMON. And you were the president of the company and you don't know what they were accused of in larceny?

Mr. GARTHSON. There were some charges made by people who couldn't bring out those charges in court, who did not come into court to testify. The indictment was taken without us being there for a

hearing. When they come up in court—I would like to answer it, if I may—Judge Vandervoort, in court, asked the prosecutor, “What are these people up here charged with,” and the prosecutor couldn’t answer it either.

Mr. SIMON. If that was the case, why did the corporation of which you were the president, plead guilty?

Mr. GARTHSON. It was done on the advice of an attorney. He advised that that was the easiest and best way to handle and be finished with it.

Mr. SIMON. You don’t know what you were charged with?

Mr. GARTHSON. I was charged with larceny.

Mr. SIMON. What did it consist of?

Mr. GARTHSON. That I was participating in a deal that I had nothing to do with.

Mr. SIMON. What was the deal?

Mr. GARTHSON. That some contractors sold some people a job and made certain statements to those people, and the people said it was me.

Mr. SIMON. What was the job?

Mr. GARTHSON. A coating job.

Mr. SIMON. A mastic paint job?

Mr. GARTHSON. That is right, sir.

Mr. SIMON. Now we find at least a little bit about it. The larceny was in connection with taking money from these people for a mastic paint job; is that right?

Mr. GARTHSON. Yes, sir.

Mr. SIMON. And it was under this home-repair program we are talking about?

Mr. GARTHSON. Yes, sir.

Mr. SIMON. And the corporation pleaded guilty to it?

Mr. GARTHSON. Yes, sir.

Mr. SIMON. Let’s get to Interstate. Maybe we can find out what that indictment was about.

Mr. GARTHSON. The same thing, sir.

Mr. SIMON. How many complaints were there?

Mr. GARTHSON. I would like to enter something there. Protexa-wall Products, Inc., had nothing to do with homeowners. We didn’t sell a homeowner anything, yet they were indicted. Why?

Mr. SIMON. I take it they made the paint.

Mr. GARTHSON. They did not, sir.

Mr. SIMON. What did they do?

Mr. GARTHSON. They were a national distributor of the product.

Mr. SIMON. They bought it from the paint manufacturer?

Mr. GARTHSON. That is correct.

Mr. SIMON. And they distributed it to dealers who sold it to homeowners?

Mr. GARTHSON. That is correct.

Mr. SIMON. Did your salesmen ever get homeowners to sign completion certificates in blank?

Mr. GARTHSON. As far as I know, I have checked it back as closely as I can, I understand that that was a condition that had prevailed.

Mr. SIMON. A condition that had prevailed?

Mr. GARTHSON. Yes, sir.

Mr. SIMON. In other words, when they signed up the homeowner at the same time they got the contract signed they would get a completion certificate signed in blank?

Mr. GARTHSON. In some cases I understand that that had prevailed.

Mr. SIMON. I show you here what purports to be one of your files on a transaction in which the salesman was J. P. Peltz. Is he the man you referred to earlier as the man who ran the school?

Mr. GARTHSON. Yes, sir.

Mr. SIMON. Here is a document that bears the title "FHA Title 1 Completion Certificate." Would you look at that file and tell us if that is a case where Mr. Peltz sold a homeowner and got a completion certificate signed in blank at the time he signed up the contract?

Mr. GARTHSON. I couldn't tell you that. I wouldn't know.

Mr. SIMON. If you will turn to some earlier pages you will find the contract that Mr. Peltz entered into with these people. Do you know whether that is his signature?

Mr. GARTHSON. I couldn't answer that, sir. I wouldn't know.

Mr. SIMON. Did you ever see him sign his name?

Mr. GARTHSON. No, sir.

Mr. SIMON. Do you know whether Pioneer Home Improvement ever fulfilled that contract?

Mr. GARTHSON. Whether they fulfilled this contract?

Mr. SIMON. Yes.

Mr. GARTHSON. I wouldn't know that, sir.

Mr. SIMON. Is that on the printed form of Pioneer Home Improvement?

Mr. GARTHSON. Yes, sir.

Mr. SIMON. Do you think that that printed form might be a forgery, or is that the real printed form of the company?

Mr. GARTHSON. To me it looks like the printed form of the company.

Mr. SIMON. You don't know whether that is actually one of the contracts?

Mr. GARTHSON. No, sir.

Mr. SIMON. Was that a par deal that Mr. Peltz sold?

Mr. GARTHSON. I wouldn't know, sir.

Mr. SIMON. If you will look at the sheet ahead of it, it gives cost, and then the balance as Mr. Peltz's commission. Does that refresh your recollection?

Mr. GARTHSON. I wouldn't have nothing to do with this, sir. I wouldn't know what their arrangements were with Mr. Peltz.

Mr. SIMON. I thought you worked with Mr. Peltz?

Mr. GARTHSON. Mr. Peltz worked for me, but not at Pioneer Home Improvement Co.

Mr. SIMON. You were with Pioneer Home Improvement Co.; weren't you?

Mr. GARTHSON. That is right, for a very short period of time.

Mr. SIMON. You wouldn't have any way of knowing whether those are authentic documents or forgeries; is that right?

Mr. GARTHSON. No; I wouldn't know.

Mr. SIMON. In any event you do know that they frequently got the completion certificate signed in blank when they got the contract signed?

Mr. GARTHSON. I understand that that was the general method employed.

Mr. SIMON. You didn't ever do that yourself?

Mr. GARTHSON. Are you inferring, or asking?

Mr. SIMON. I am asking.

Mr. GARTHSON. If I got one signed in blank?

Mr. SIMON. Yes.

Mr. GARTHSON. As far as my recollection is, I couldn't answer the question. You are going back many years and it has been a long time since I sold these contracts.

Mr. SELLS. Mr. Garthson, as I recall your testimony of a few moments ago, you say that the sale is closed when you get a yes from the customer; is that right?

Mr. GARTHSON. Yes, sir.

Mr. SELLS. I wanted to read from this seven-page brochure that I think you have indicated was used to prepare these salesmen to go out and make these sales. You have referred to it in your own testimony.

I am reading from the bottom of page 4:

If a yes is still not forthcoming, you then work on their ego, or start pressure selling.

What does pressure selling mean?

Mr. GARTHSON. You are asking me for an interpretation. It is a continual repeating of what your product is, repeat it, repeat it, repeat it.

Mr. SELLS. Over a long period of time?

Mr. GARTHSON. Yes, sir.

Mr. SELLS. Hours, if necessary, until you get that signature?

Mr. GARTHSON. That is correct, sir.

Mr. SELLS. Reading from the top of page 5:

Once they have said yes to your qualifications the battle is practically won. After you have completed your measurements, using your graph for illustrations on a pad, make yourself very busy muttering and talking to yourself in compiling all your figures. You are the mathematical genius, remember, and you act the part.

Is that part of the show sale that you put on?

Mr. GARTHSON. What do you mean by "show sale"?

Mr. SELLS. Is that part of the sales technique that these salesmen were taught to use?

Mr. GARTHSON. Yes, sir.

Mr. SELLS. Would you call that dynamiting?

Mr. GARTHSON. No, sir.

Mr. SELLS. What would you call it?

Mr. GARTHSON. Good selling.

Mr. SELLS. Pressure selling?

Mr. GARTHSON. Good selling.

Mr. SELLS. Pressure selling?

Mr. GARTHSON. No, sir; good selling.

Mr. SELLS. It is good selling?

Mr. GARTHSON. Yes, sir.

Mr. SELLS. All right.

Mr. HOGUE. Mr. Garthson, do you have an associate by the name of Bailey in your present organization, Creative Modernizers, in New Jersey?

Mr. GARTHSON. Yes, sir.

Mr. HOGUE. What is Mr. Bailey's real name?

Mr. GARTHSON. Granat.

Mr. HOGUE. Do you know that Mr. Granat is on the FHA restricted list?

Mr. GARTHSON. I know it now, sir.

Senator BUSH. We have no further questions?

Thank you very much.

That concludes the hearings for this afternoon. The committee stands recessed until 10 o'clock tomorrow morning.

(Whereupon, at 3:25 p. m., the committee was recessed until 10 a. m. Friday, August 27, 1954.)

FHA INVESTIGATION

FRIDAY, AUGUST 27, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
New York, N. Y.

The committee met, pursuant to recess, at 10:05 a. m., in the north ballroom of the Hotel Astor, New York, N. Y., Senator Prescott Bush presiding.

Present: Senator Bush.

Also present: William Simon, general counsel; Thomas Kenney, Richard Hogue, and Charles E. Sells, assistant counsel, FHA investigation.

Senator BUSH. The committee will please be in order.

Is Mr. Abraham Traub here? Mr. Traub? Is anyone here representing Mr. Traub?

Mr. Traub was requested to be here, subpoenaed to be here this morning, with the books which the committee insisted upon yesterday.

Mr. Cook, will you come forward please?

Please raise your right hand. Do you solemnly swear the testimony you will give before the committee will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF WILLIAM H COOK, INVESTIGATOR, SENATE BANKING AND CURRENCY COMMITTEE—Resumed

Mr. COOK. I do, sir.

Senator BUSH. Will you sit down and give your name to the clerk?

Mr. COOK. William H. Cook, 1705 P Street NW., Washington, D. C. I am a staff investigator for the Senate committee.

Mr. SIMON. Mr. Cook, shortly after Mr. Traub left the witness stand yesterday did you have prepared a subpoena for his books and records?

Mr. COOK. I did, sir.

Mr. SIMON. Where did you take the subpoena?

Mr. COOK. I took the subpoena to the office of his attorney, Milton Weisman, 1501 Broadway.

Mr. SIMON. What were you told when you got there?

Mr. COOK. I was told at that time that Mr. Traub might be in their office at 5 o'clock.

Mr. SIMON. Did you go back at 5 o'clock?

Mr. COOK. I returned to their office around 4:30 and sat and waited in their office until 5 o'clock, and Mr. Traub did not show up.

Mr. SIMON. Then what did you do?

Mr. COOK. At that point I went to Mr. Traub's residence at 1620 Avenue I in Brooklyn. I called the attorney for Mr. Traub and asked him if he would produce Mr. Traub voluntarily.

About 8:15 I started knocking on Mr. Traub's door and went there at intervals of every half hour until 1 o'clock this morning.

Mr. SIMON. Did anyone answer the door when you knocked at 8:15?

Mr. COOK. Not at 8:15.

Mr. SIMON. When was the first time someone answered the door?

Mr. COOK. Approximately 11:30. Mrs. Traub was home; we went in. We asked her if she knew where we could locate her husband.

Mr. SIMON. Do you know how long before 11:30 Mrs. Traub had come home?

Mr. COOK. Not more than 2 minutes.

Mr. SIMON. What did she tell you when you asked her if she knew her husband's whereabouts?

Mr. COOK. She said she thought he had an appointment in Westchester County but didn't know exactly where.

Mr. SIMON. Do you know where Mr. Traub's lawyer lives?

Mr. COOK. Westchester County.

Mr. SIMON. Did you call the lawyer from Traub's home?

Mr. COOK. That's right.

Mr. SIMON. About what time was that?

Mr. COOK. Approximately 5 minutes after 12.

Mr. SIMON. And as I understand it, Mrs. Traub asked you to pay for the telephone call, which you did.

Mr. COOK. That is correct, sir.

Mr. SIMON. What time did you leave the Traub home?

Mr. COOK. About 12:15. I had to ask Mr. Weisman, the attorney for Mr. Traub, if he would voluntarily produce him this morning and he stated that he would recommend that he appear but he assured us that he did not know where Mr. Traub was at the moment.

Mr. SIMON. Did Mrs. Traub indicate to you whether she expected her husband home last night?

Mr. COOK. She said that she presumed he would be home; she would not say for sure.

Mr. SIMON. You left at what time?

Mr. COOK. One o'clock.

Mr. SIMON. And he had not returned?

Mr. COOK. He had not returned at that time.

Mr. SIMON. Thank you.

Senator BUSH. Thank you, Mr. Cook.

The committee will not disclose at this time its procedure in connection with this matter in future but simply state that we certainly intend to get the books of Mr. Traub which have been subpoenaed, and that Mr. Traub will be called back before this committee when we reconvene in New York later on, September 27.

The next witness is Israel Orlian of Israel Orlian & Son, New York.

Mr. Orlian, will you raise your right hand please? Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF ISRAEL ORLIAN, SUNDAWN GARDENS, BROOKLYN,
N. Y., ETC., ACCOMPANIED BY ROBERT H. WINN, COUNSEL**

Mr. ORLIAN. Yes, sir.

Senator BUSH. Will you be seated there in front of the microphones.

Mr. WINN. I am his attorney. May we have all the pictures taken now please?

Senator BUSH. Will you gentlemen take your pictures?

Mr. SIMON. Mr. Orlian, will you give your name and address to the reporter, please.

Mr. ORLIAN. Israel Orlian, 44 Prospect Park West, Brooklyn, N. Y.

Mr. SIMON. You're the builder of eight section 608 projects?

Mr. ORLIAN. I believe it's eight.

Mr. SIMON. Is one of them Sundawn?

Mr. ORLIAN. Yes, sir.

Mr. SIMON. Where is that located?

Mr. ORLIAN. That's located in Brooklyn—Ocean Avenue between Avenue X and Y.

Mr. SIMON. What is the name of the corporation that built the project?

Mr. ORLIAN. Sundawn Realty—Sundawn Gardens, Inc.

Mr. SIMON. What is the capital stock of that company?

Mr. ORLIAN. Capital stock was \$5,000, sir.

Mr. SIMON. What was the amount of the FHA mortgage?

Mr. ORLIAN. \$1,496,600.

Mr. SIMON. What was the cost including the cost of the land?

Mr. ORLIAN. \$1,396,872.87.

Mr. SIMON. Is the excess of mortgage over cost—

Mr. ORLIAN. Is \$99,817.13.

Mr. SIMON. And the premium on the mortgage?

Mr. ORLIAN. The premium on the mortgage, I believe, was approximately 4 percent. I'll give you the amount. It is \$59,864.

Mr. SIMON. Is the second project Woodcliff No. 1?

Mr. ORLIAN. Woodcliff No. 1; yes.

Mr. SIMON. What is the amount of the mortgage?

Mr. ORLIAN. \$2,046,000.

Mr. SIMON. The cost including the land?

Mr. ORLIAN. \$1,994,388.42.

Mr. SIMON. The excess of mortgage over cost?

Mr. ORLIAN. Is \$51,611.58.

Mr. SIMON. Premium?

Mr. ORLIAN. \$81,840.

Mr. SIMON. And what was the capital stock there?

Mr. ORLIAN. The capital stock according to this—the capital stock is \$400.

Mr. SIMON. Woodcliff No. 2. What was the amount of the mortgage there?

Mr. ORLIAN. \$1,332,000.

Mr. SIMON. The cost, including the cost of the land?

Mr. ORLIAN. \$1,326,230.81.

Mr. SIMON. The excess of mortgage over cost?

Mr. ORLIAN. Is \$5,769.19.

Mr. SIMON. The premium?

Mr. ORLIAN. On No. 2, \$53,280.

- Mr. SIMON. The capital stock?
- Mr. ORLIAN. Is the same as on the other one, \$400.
- Mr. SIMON. \$400?
- Mr. ORLIAN. Yes, sir.
- Mr. SIMON. The next is Oliver Gardens, is it?
- Mr. ORLIAN. Yes; I have an Oliver Gardens.
- Mr. SIMON. What is the capital stock in Oliver Gardens?
- Mr. ORLIAN. It seems to be about the same—\$400.
- Mr. SIMON. \$400. What is the amount of the mortgage?
- Mr. ORLIAN. \$2,001,500.
- Mr. SIMON. What is the cost?
- Mr. ORLIAN. \$1,785,291.86.
- Mr. SIMON. Does that include the land?
- Mr. ORLIAN. No. This one is a leasehold on the land, I believe.
- Mr. SIMON. This is a building built on a 99-year leasehold?
- Mr. ORLIAN. Yes, sir.
- Mr. SIMON. And the Government mortgage is solely on the leasehold; is that right?
- Mr. ORLIAN. Yes, sir.
- Mr. SIMON. What was the excess of mortgage over cost?
- Mr. ORLIAN. \$216,208.14.
- Mr. SIMON. What was the cost of the land?
- Mr. ORLIAN. The cost of the land was \$187,486.88.
- Mr. SIMON. What was the FHA valuation on the land?
- Mr. ORLIAN. \$270,000, but this I believe is an error because when we purchased this land we bought it for over \$230,000. Due to the reorganization of the organization that sold it to us, the company had mortgages, and so forth, and we bought the mortgages back on a discount and the net cost was reduced then by about \$50,000; so the real cost, if the real cost were shown as to the value of the land at that time, would have been about \$250,000.
- Mr. SIMON. No. My question was not the value, but the cost. How much did the land cost you?
- Mr. ORLIAN. The net cost was originally \$230,000, but we later reduced it to \$187,000 because we bought the mortgages in at a discount.
- Mr. SIMON. Is 187,000 the number of dollars you had to pay out?
- Mr. ORLIAN. That was what we actually paid out.
- Mr. SIMON. FHA valuation?
- Mr. ORLIAN. \$270,000.
- Mr. SIMON. Did you put a mortgage on the fee?
- Mr. ORLIAN. Yes. We have a mortgage on it of \$243,000.
- Mr. SIMON. All right. And what is the capital stock there?
- Mr. ORLIAN. \$400?
- Mr. SIMON. What was the premium on the mortgage?
- Mr. ORLIAN. \$80,060.
- Mr. SIMON. The next one is Aero Gardens?
- Mr. ORLIAN. Yes, sir.
- Mr. SIMON. What was the capital stock there?
- Mr. ORLIAN. \$400.
- Mr. SIMON. What was the mortgage?
- Mr. ORLIAN. \$2,467,300.
- Mr. SIMON. What was the cost?
- Mr. ORLIAN. \$2,195,327.42.

Mr. SIMON. That did not include the land?

Mr. ORLIAN. That did not include the land.

Mr. SIMON. What is the excess of mortgage over cost?

Mr. ORLIAN. Over the cost? Yes, sir. The amount is \$271,972.58.

Mr. SIMON. The cost of the land?

Mr. ORLIAN. The cost of land was \$130,341.91.

Mr. SIMON. FHA valuation?

Mr. ORLIAN. \$154,000.

Mr. SIMON. Mortgage?

Mr. ORLIAN. \$138,600.

Mr. SIMON. Next one is Boulevard Gardens—excuse me, what is the premium on Aero Gardens?

Mr. ORLIAN. \$98,692.

Mr. SIMON. The next is Boulevard Gardens. The capital stock is how much?

Mr. ORLIAN. \$400.

Mr. SIMON. The mortgage?

Mr. ORLIAN. \$2,467,300.

Mr. SIMON. Cost?

Mr. ORLIAN. \$2,249,608.42.

Mr. SIMON. Excess of mortgage over cost?

Mr. ORLIAN. \$217,691.58.

Mr. SIMON. The cost there did not include the land cost; is that right?

Mr. ORLIAN. No, sir.

Mr. SIMON. What was the cost of the land?

Mr. ORLIAN. \$116,242.55.

Mr. SIMON. FHA valuation?

Mr. ORLIAN. \$154,000.

Mr. SIMON. Mortgage on the land?

Mr. ORLIAN. \$138,600.

Mr. SIMON. Premium?

Mr. ORLIAN. \$98,692.

Mr. SIMON. Next one is Congress Gardens?

Mr. ORLIAN. Yes, sir.

Mr. SIMON. Capital stock?

Mr. ORLIAN. \$400.

Mr. SIMON. The mortgage?

Mr. ORLIAN. \$975,200.

Mr. SIMON. The cost?

Mr. ORLIAN. \$751—

Mr. SIMON. You mean \$751,000.

Mr. ORLIAN. \$751,671.20.

Mr. SIMON. Excess?

Mr. ORLIAN. \$223,528.80.

Mr. SIMON. And that building is on a leasehold?

Mr. ORLIAN. On a leasehold.

Mr. SIMON. Cost of land?

Mr. ORLIAN. \$71,817.84.

Mr. SIMON. FHA valuation?

Mr. ORLIAN. \$79,000.

Mr. SIMON. Mortgage on the land?

Mr. ORLIAN. \$71,000.

Mr. SIMON. Premium?

Mr. ORLIAN. \$14,628.

Mr. SIMON. And I believe you have a project called Floral Park, Inc.?

Mr. ORLIAN. Yes, sir.

Mr. SIMON. What is the capital stock there?

Mr. ORLIAN. Capital stock? Ten thousand dollars.

Mr. SIMON. Mortgage?

Mr. ORLIAN. \$2,177,500.

Mr. SIMON. Cost?

Mr. ORLIAN. \$2,029,411.06.

Mr. SIMON. Excess of mortgage over cost?

Mr. ORLIAN. \$148,088.94.

Mr. SIMON. Is that on a leasehold or is the land excluded?

Mr. ORLIAN. The land is paid for.

Mr. SIMON. The land is paid for there. What is the premium there?

Mr. ORLIAN. \$51,937.50 to be paid over a period of about 7 or 8 years.

Mr. SIMON. And \$43,000 has been paid so far?

Mr. ORLIAN. So far, yes, sir—\$43,103.04.

Mr. SIMON. \$43,000—

Mr. ORLIAN. \$43,103.04 has been paid.

Mr. SIMON. Then you have Floral Park No. 2?

Mr. ORLIAN. Yes, sir.

Mr. SIMON. What is the capital stock there?

Mr. ORLIAN. Ten thousand dollars.

Mr. SIMON. What is the mortgage?

Mr. ORLIAN. \$883,500.

Mr. SIMON. The cost?

Mr. ORLIAN. \$904,978.71. Therefore we invested \$21,478.71.

Mr. SIMON. When you say you invested \$21,000 you mean the project cost you \$21,000 more than the amount of the mortgage?

Mr. ORLIAN. That's right—well, that's an investment.

Mr. SIMON. I don't quarrel with that; I want to make sure. In that case the land is owned by the corporation?

Mr. ORLIAN. Corporation; yes, sir.

Mr. SIMON. \$21,478.78.

Mr. ORLIAN. \$21,478.71.

Mr. SIMON. Seventy-eight cents. What was the premium there?

Mr. ORLIAN. The premium was—the bank paid the premium of \$15,461.25, but we employed a broker on that so our net was \$10,143.75.

Mr. SIMON. \$10,143.75. So your net investment in that one was about \$11,000?

Mr. ORLIAN. Plus what we put in.

Mr. SIMON. And that was the only one of your nine projects where you had to invest any money other than capital stock?

Mr. ORLIAN. By cash investments.

Mr. SIMON. What other kind of investments do you make?

Mr. ORLIAN. Well, these costs don't show overhead; they don't show processing, cost of brokerage we did ourselves. What I mean is we put in value—

Mr. SIMON. Mr. Orlian, don't these costs include every last penny that you paid to any living soul?

Mr. ORLIAN. No, sir. Our overhead was not charged.

Mr. SIMON. What do you mean by your overhead?

Mr. ORLIAN. I have an office in Brooklyn. This was worked from Jersey and we did not put that on at all.

Mr. SIMON. What did you do in your office in Brooklyn?

Mr. ORLIAN. We have our own conventional jobs, do other contracting work. We built at the time in New York on 7th Avenue and 17th Street and all the work was absorbed by other projects.

Mr. SIMON. In other words, you charged it to some other projects, the overhead?

Mr. ORLIAN. Jobs we do in the office.

Mr. SIMON. What was the total capital stock in these nine projects?

Mr. ORLIAN. That I have not prepared but I guess it can be added in a short time.

Mr. SIMON. Does it add up to \$27,400?

Mr. ORLIAN. Well, I believe the others we could do it quickly. Four times seven would be \$2,800 and our own two I built in Jersey would be \$20,000—ten each.

Mr. SIMON. I think you testified that the first project—Sundawn—was \$5,000?

Mr. ORLIAN. Well, I forgot. I thought they were all \$400.

Mr. SIMON. You had two ten's and a five would be twenty-five. Six times \$400 would be \$2,400 or a total of \$27,400 of capital stock; is that right?

Mr. ORLIAN. I guess so. That's right.

Mr. SIMON. And any other funds that you loaned or advanced to these building projects were all repaid out of the mortgages?

Mr. ORLIAN. Yes, sir.

Mr. SIMON. Except for \$10,000 in Floral Gardens No. 2?

Mr. ORLIAN. That's right.

Mr. SIMON. What was the total amount of the mortgages on these nine projects?

Mr. ORLIAN. \$15,846,900—close to \$16 million.

Mr. SIMON. What was the total cost of the projects in all nine projects?

Mr. ORLIAN. I didn't add that up at all; but I've got the excesses.

Mr. SIMON. Can you give me the total costs? If you give me the excesses that would be all right.

Mr. ORLIAN. The excess was \$1,213,211.

Mr. SIMON. That's \$1,213,000. What are the premiums?

Mr. ORLIAN. The total premiums—\$487,056, plus \$62,081. We can add that up.

Mr. SIMON. \$549,000 is that?

Mr. ORLIAN. \$549,137. Would that be right?

Mr. SIMON. \$487,000 plus \$62,000, Mr. Orlian, I think is \$549,000.

Mr. ORLIAN. \$549,137.

Mr. SIMON. Is that right?

Mr. ORLIAN. That's right.

Mr. SIMON. And what is the excess of mortgage over cost on the land?

Mr. ORLIAN. These figures I have not got here.

Mr. SIMON. You say you didn't have that figure?

Mr. ORLIAN. We can add it all up. I haven't got it summarized.

Mr. SIMON. You testified a minute ago on Olivier the land cost you \$187,000 and the mortgage was \$243,000, which is a difference of \$56,000.

Mr. ORLIAN. Yes.

Mr. SIMON. On Aero you said the cost was \$130,000 and the mortgage was \$138,000, which is a difference of \$8,000. On Boulevard the cost was \$116,000—I'm knocking off the hundreds—and the mortgage was \$138,000, which is a difference of \$22,000; is that right?

Mr. ORLIAN. I believe so. The only thing, of course, you know that we are individually liable on these mortgages.

Mr. SIMON. You are liable on these mortgages—

Mr. ORLIAN. On these mortgages, and they're only about 10 years, I think. I don't take care of the financial part.

Mr. SIMON. And on Congress Gardens the cost was equal to the mortgage?

Mr. ORLIAN. That's right.

Mr. SIMON. So the mortgage exceeded the cost—

Mr. ORLIAN. The only thing is, these mortgages are to be paid back within 10 years.

Mr. SIMON. Yes; but they're secured by the leasehold, which includes the FHA-insured mortgage property, doesn't it?

Mr. ORLIAN. That's right.

Mr. SIMON. Well now, if we have \$1,213,000 excess of cost, \$549,000 of premiums, and \$85,000 excess of mortgage over cost on the lands it's \$1,847,000 by which the money you got from the mortgages exceeded the cost; is that right?

Mr. ORLIAN. Pardon me, sir. Are you adding the premium together with the excess cost of construction?

Mr. SIMON. Yes.

Mr. ORLIAN. Well you know the Government does not insure anything and that fluctuates. If you notice in one case we got a half percent and in other cases 4 percent. We are paid one and a half for getting a mortgage. That's a matter of market.

I don't see why these should be added together with the others. That's a matter of financial arrangements.

Mr. SIMON. Did you receive \$549,000 from the lenders as premiums on the FHA-insured mortgages?

Mr. ORLIAN. We did.

Mr. SIMON. And did you charge against these costs the FHA premiums that you had to pay FHA?

Mr. ORLIAN. How it was charged should be an accountant's matter. I wouldn't know, but I know that was an income.

Mr. SIMON. Well now wait a minute. In these statements you are reading from—

Mr. ORLIAN. Yes.

Mr. SIMON. The items of cost that you gave me—

Mr. ORLIAN. Did not include—

Mr. SIMON. Wait a minute. They did include mortgage expense, didn't they?

Mr. ORLIAN. Yes, sir.

Mr. SIMON. And the mortgage expense that you included was the fees that you had to pay FHA; isn't that so?

Mr. ORLIAN. That's right.

Mr. SIMON. Well, how do you justify on the one hand charging against the costs the fees you had to pay FHA to get these Government-insured mortgages, and then on the other hand not trying to include the premiums which the lenders paid you?

Mr. ORLIAN. The fees that you paid the FHA——

Mr. SIMON. Yes.

Mr. ORLIAN. We only paid three-tenths of 1 percent for the land. Is that what you are referring to? One-half of 1 percent for inspection, one-half of 1 percent for the insurance——

Mr. SIMON. All those items you included in your cost, didn't you?

Mr. ORLIAN. That's right, but it didn't pay back anything against financing; that was only construction expenses was what we paid FHA.

Mr. SIMON. But you would never have gotten the premiums if they had not insured the mortgages, would you?

Mr. ORLIAN. Some of them I would. If it's conventional we have as much premiums as I received on one or two of the mortgages.

Mr. SIMON. On 90 percent of estimated cost mortgages?

Mr. ORLIAN. One hundred percent estimated cost.

Mr. SIMON. Better than 100 percent in some of these. Can you get conventional mortgages at 100 or 120 percent of cost?

Mr. ORLIAN. We have in cases been able to post a mortgage out on conventional jobs——

Mr. SIMON. Pretty rare, isn't it?

Mr. ORLIAN. If we built at a proper time, on dropping markets——

Mr. SIMON. Do you ever mortgage out on 8 out of 9 conventional jobs built on leaseholds?

Mr. ORLIAN. I never built 8 or 9 jobs as large as these on conventional.

Mr. SIMON. Well, in any event, Mr. Orlian, when we got all through with these projects you had a capital stock investment of \$27,400; is that right?

Mr. ORLIAN. I think so.

Mr. SIMON. You owned nine pieces of real estate; is that right?

Mr. ORLIAN. Yes, sir.

Mr. SIMON. And you had \$1,847,000 in your pocket, so to speak; is that right?

Mr. ORLIAN. That's right, but there is one correction, sir. In each of these projects you only asked what the capital stock was and in no case did you ask me what the amount of cash was we had to deposit.

Mr. SIMON. I did. I remember asking you if it wasn't a fact that whatever moneys you had loaned to this project you got back.

Mr. ORLIAN. Yes, sir.

Mr. SIMON. So that, as of the time the buildings were finished——

Mr. ORLIAN. After it was completed the question is "Yes" to your answer.

Mr. SIMON. You mean the answer is "Yes" to my question; is that right?

Mr. ORLIAN. Well——

Mr. SIMON. As of the completion of the buildings the mortgage proceeds had returned to you whatever money you had loaned?

Mr. ORLIAN. At that time, yes.

Mr. SIMON. You owned nine pieces of real estate; is that right?

Mr. ORLIAN. Yes, sir.

Mr. SIMON. You had a capital stock investment of \$27,400?

Mr. ORLIAN. Yes, sir.

Mr. SIMON. And you had \$1,847,000 in your pocket?

Mr. ORLIAN. The mortgage on the fees——

Mr. SIMON. Is that right?

Mr. ORLIAN. That part is right, but we were personally liable. We are still under that note to guarantee the land mortgages—no more than we borrow money in the bank——

Mr. SIMON. And you're personally liable on the land mortgages but not personally liable on the mortgages on the buildings?

Mr. ORLIAN. No, sir.

Mr. SIMON. And the FHA mortgages, of course, are those on the buildings?

Mr. ORLIAN. The FHA mortgages—and I say the FHA got their money's worth on those buildings, well worth the money that they invested.

Mr. SIMON. Let me ask you this: When you say the FHA got their money's worth, if things are good for the next 30 years—which is the life of the mortgage—you get all the profits of the building; is that right?

Mr. ORLIAN. Not all the profits.

Mr. SIMON. Whatever profits there are you get; is that right?

Mr. ORLIAN. Yes, sir.

Mr. SIMON. And if things are bad, the buildings go sour, then the Government takes the loss; is that right?

Mr. ORLIAN. Well, it would require a depression before this crisis would come——

Mr. SIMON. Well, if there is a loss.

Mr. ORLIAN. That's a very hypothetical question, sir. You have to look for a big depression, a calamity, before this will come about.

Senator BUSH. Will you answer the counsel's question, please? We don't want any lectures here on the economic future.

He asked you if such thing happened would the Government be the one that absorbed the loss?

Mr. ORLIAN. If so, that would be the case.

Mr. SIMON. So whatever profits there are you get; whatever losses there are the Government gets; is that right?

Mr. ORLIAN. Well, I'd have to be a lawyer to answer that; I imagine so, from the way the question is.

Mr. SIMON. Isn't that right, Mr. Orlian?

Mr. ORLIAN. The Government also made money during the construction, as well as every year while we carry the building they get a half percent of insurance on it.

Mr. SIMON. But if there's any loss the Government takes the loss; is that right?

Mr. ORLIAN. Well, that's no more than any insurance company would do.

Senator BUSH. Will you kindly answer these questions directly? It takes up too much time to have these long answers. They can be easily answered "Yes" or "No."

Please answer these questions of counsel briefly. Yes or no is all we want to hear. It's perfectly clear.

We know what the Government gets out; we know it charges insurance premium; we know those things.

Have you any further questions?

Mr. SIMON. No, sir.

Senator BUSH. This is Mr. Kenney.

Mr. KENNEY. Do you have the total for the number of units that is included in all of these projects?

Mr. ORLIAN. No; I haven't.

Mr. KENNEY. Can you estimate that number?

Mr. ORLIAN. I roughly got over 1,800 apartments.

Mr. KENNEY. That will be sufficient.

Was this housing provided at a very critical time when the need for housing was very critical?

Mr. ORLIAN. Yes, sir.

Mr. KENNEY. Were you requested by FHA to provide housing?

Mr. ORLIAN. I believe I was in 1947.

Mr. KENNEY. Did you attend any promotional meetings by FHA to encourage the production of housing?

Mr. ORLIAN. No, sir. If you care to know, on the first project we had 7,300 applications for 200 apartments. That was the first one built in the State.

Mr. KENNEY. The amount that has been mortgaged out in your project, has that been repaid now by means of amortization of the mortgage?

Mr. ORLIAN. That I would have to figure. I wouldn't say completely, but I would say that the first few probably were; that would be my guess, of course.

Mr. KENNEY. Have you sold any of these projects?

Mr. ORLIAN. Sold one, sir.

Mr. KENNEY. And you retained the eight?

Mr. ORLIAN. Yes, sir.

Mr. KENNEY. What is your operating experience on the eight you have? Is that satisfactory?

Mr. ORLIAN. Very satisfactory—always full.

Mr. KENNEY. Are they paying a profit?

Mr. ORLIAN. Yes, sir.

Mr. KENNEY. After depreciation?

Mr. ORLIAN. Yes, sir.

Mr. KENNEY. You expect to hold them for investment purposes?

Mr. ORLIAN. Yes, sir.

Mr. KENNEY. Do you build single-family houses under FHA?

Mr. ORLIAN. Yes, sir, some.

Mr. KENNEY. Do you mortgage out on those?

Mr. ORLIAN. Not exactly. I don't think so. It's the first job we started in Trenton and our figures have not been completed yet.

Mr. KENNEY. You say you haven't mortgaged out on conventional construction?

Mr. ORLIAN. We have at times.

Mr. KENNEY. At times. Could you give us an estimate of the number, or the percentage, of cases that you might have mortgaged out on conventional construction?

Mr. ORLIAN. In the past few years I only built FHA, so there was only one, and that one we did not quite mortgage out.

Mr. KENNEDY. Isn't it a fact the reason you don't mortgage out on conventional construction is because of the much lower ratio of mortgage to value on conventional as against the 90 percent on FHA?

Mr. ORLIAN. I would say so.

Mr. KENNEDY. That will be all.

Senator BUSH. Thank you very much. That will be all this morning.

I should like to make a statement and I'd appreciate it if my friends in the press would give this a little attention.

The National Association of Building and Repair Contractors has expressed some concern because these hearings in respect of title I of home repair and improvement program appear to be giving the industry a black eye.

The committee is very anxious to avoid injuring any innocent citizen, and I wish to state on behalf of the committee that we are convinced that the racketeers operating in this title I field on home repair and improvement programs constitute only a small minority on the fringe of a very fine industry. I suggest that the public can very well protect itself in connection with home repair jobs by selecting businessmen with community reputations to maintain, and ask them for references if they don't know those reputations. Any reputable businessman in this field can supply references.

That's all. Thank you very much.

The next witness will be Harry L. Osias.

Mr. Osias, will you stand and raise your right hand, please? Do you solemnly swear the testimony which you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF HARRY L. OSIAS, KEW GARDENS HILLS APARTMENTS, ETC., ACCOMPANIED BY ROBERT H. WINN, COUNSEL

Mr. OSIAS. I do.

Senator BUSH. Will you give your name to the reporter?

Mr. OSIAS. Harry L. Osias, 233 Broadway, New York City.

Mr. SIMON. Mr. Osias, are you a builder who has built five FHA projects under section 608 of the Housing Act?

Mr. OSIAS. Yes, sir.

Mr. SIMON. And in those 5 projects did the mortgage proceeds exceed the costs by more than \$4 million?

Mr. OSIAS. Which five, Mr. Simon?

Mr. SIMON. Well, the Kew Gardens Hills project; the Kew Gardens Apartments project; the 102d Street Apartments project; the Jackson Apartments project; and the Kew Gardens Hills Apartments project.

I might ask, did you build any other section 608 projects?

Mr. OSIAS. Did I have any others?

Mr. SIMON. Yes, other than these five I just mentioned.

Mr. OSIAS. No, sir.

Mr. SIMON. So they're the only ones you have?

Mr. OSIAS. That's right.

Mr. SIMON. And in those five did the mortgage proceeds exceed the costs by more than \$4 million?

Mr. OSIAS. No—\$3,492,000.

Mr. SIMON. And how much was the premium?

Mr. OSIAS. \$27,473,000—

Mr. SIMON. The premium on the mortgages. The amount of the mortgage exceeded the cost by \$3,492,500.

Mr. OSIAS. That is right.

Mr. SIMON. What were the premiums on the mortgages that you received?

Mr. OSIAS. \$579,718.

Mr. SIMON. That would total more than \$4 million, wouldn't it?

Mr. OSIAS. Well, I don't know as to whether I could go along on that because that's a premium that I would receive even if I were to build conventional buildings, depending on the market.

Mr. SIMON. Do you get premiums on mortgages that are 110, 115 percent of cost without FHA guaranties? Do conventional lenders give premiums of half a million dollars on mortgages that are 110 percent of cost if they don't have an FHA guaranty?

Mr. OSIAS. No; they don't.

Mr. SIMON. That's what I thought.

Now on the leaseholds, all except one of these projects was built on a leasehold; is that right?

Mr. OSIAS. That is right.

Mr. SIMON. And ironically enough, the one project where the land was a part of the project is the one project where you didn't have a windfall; is that right? That's the Kew Gardens Hills Apartment, Inc., project?

Mr. OSIAS. That's right.

Mr. SIMON. That's the only one where the land went into the project and that's the only one you didn't mortgage out; is that right?

Mr. OSIAS. That's right.

Mr. SIMON. On the other projects what was the cost of the land on the 102d Street Apartments No. 1?

Mr. OSIAS. Approximately \$41,600.

Mr. SIMON. And what is the mortgage on that property?

Mr. OSIAS. \$77,400.

Mr. SIMON. What is the land cost of 102d Street No. 2?

Mr. OSIAS. \$45,800, about.

Mr. SIMON. What is the mortgage?

Mr. OSIAS. \$61,920.

Mr. SIMON. Jackson Apartments No. 1—the cost of the land?

Mr. OSIAS. Around \$47,000.

Mr. SIMON. And the mortgage?

Mr. OSIAS. \$59,340.

Mr. SIMON. Jackson Apartments No. 2?

Mr. OSIAS. \$55,400.

Mr. SIMON. Mortgage?

Mr. OSIAS. \$59,340.

Mr. SIMON. Second Kew Gardens—the cost of the land?

Mr. OSIAS. \$132,000 approximately.

Mr. SIMON. Mortgage?

Mr. OSIAS. \$183,180.

Mr. SIMON. Third Kew Gardens—cost of the land?

Mr. OSIAS. \$43,000. Around \$43,000.

Mr. SIMON. Mortgage?

Mr. OSIAS. \$248,540.

Mr. SIMON. Fourth Kew Gardens?

Mr. OSIAS. Around \$35,000.

Mr. SIMON. Mortgage?

Mr. OSIAS. \$307,020.

Mr. SIMON. Kew Gardens Apartments? And there are 12 sections there. Do you have the cost of the 12 sections?

Mr. OSIAS. Broken down.

Mr. SIMON. Can you give me the total to make it a little quicker?

Mr. OSIAS. I'll make it faster for you. Twenty-three thousand nine hundred and twenty-one dollars.

Mr. SIMON. \$23,921?

Mr. OSIAS. Yes. Mortgage: \$31,820.

Mr. SIMON. Can you give me the total of the 12 sections?

Mr. OSIAS. I haven't got the totals here but I can run through the figures if you want me to.

Mr. SIMON. Could you add it up there and give us the total? It will be a little quicker.

Do you have it there, Mr. Osias? The cost of the Kew Gardens 12 sections—the land.

Mr. OSIAS. \$242,900—approximately.

Mr. SIMON. And the mortgage?

Mr. OSIAS. \$453,220.

Mr. SIMON. Now, going back to the Kew Gardens Hills project, there were three corporations in that project, second, third, and fourth; is that right?

Mr. OSIAS. That's right.

Mr. SIMON. Where is that project located?

Mr. OSIAS. Kew Gardens Hills, Flushing, Long Island.

Mr. SIMON. And what was the capital stock in those three corporations? Was it \$1,000 for each company, Mr. Osias?

Mr. OSIAS. Well, that was the capital stock, but besides that—

Mr. SIMON. Was that the capital stock?

Mr. OSIAS. About—approximately.

Mr. SIMON. Wasn't it exactly \$1,000 in each company?

Mr. OSIAS. Just a second.

Mr. SIMON. Is that right?

Mr. OSIAS. That is right.

Mr. SIMON. Now, Kew Gardens Apartments—12 sections—where is that project located?

Mr. OSIAS. They're located in the Briarwood section of Queens. I'd call it Kew Gardens.

Mr. SIMON. And in those 12 corporations what was the capital stock?

Mr. OSIAS. A thousand dollars with each one, sir.

Mr. SIMON. Then in 102d Street Apartments project—where is that located?

Mr. OSIAS. That's in Forest Hills, Long Island.

Mr. SIMON. Forest Hills, Long Island. There are two corporations there?

Mr. OSIAS. Yes, sir.

Mr. SIMON. And the capital stock was \$1,000 in each corporation?

Mr. OSIAS. That is right.

Mr. SIMON. Then Jackson Apartments, two corporations; where is that project?

Mr. OSIAS. Jackson Heights, Long Island.

Mr. SIMON. Two corporations—is the capital stock \$1,000 in each of them?

Mr. OSIAS. That is right, sir.

Mr. SIMON. The last is Kew Gardens Hills Apartments, Inc., one corporation. Is the capital stock \$1,000 there?

Mr. OSIAS. Yes, sir.

Mr. SIMON. So there are 20 corporations and the total capital stock was \$20,000; is that right?

Mr. OSIAS. That is right.

Mr. SIMON. Now I assume that after you got the FHA commitments you loaned moneys to these companies to finance the operation; is that right?

Mr. OSIAS. That's right.

Mr. SIMON. And out of the FHA mortgage proceeds you repaid all those loans?

Mr. OSIAS. They're all paid back.

Mr. SIMON. They're all paid back; is that right?

Mr. OSIAS. Yes, sir.

Mr. SIMON. Now you have a total of \$27½ million of FHA mortgages; is that right?

Mr. OSIAS. That's right.

Mr. SIMON. And out of those \$27½ million of mortgages you repaid whatever loans you had before completion of the building, or at completion; is that right?

Mr. OSIAS. Approximately, sir.

Mr. SIMON. And after completion of the building and after you had repaid all these loans you had \$20,000 invested in the 12 corporations; is that right?

Mr. OSIAS. That is right.

Mr. SIMON. And out of the mortgage proceeds, the costs, excluding the land costs in all the projects except that little one where you didn't make out so well, the costs were \$3,492,518 less than the face amount of the mortgages; is that right?

Mr. OSIAS. That is right, sir.

Mr. SIMON. The premiums that you received on the mortgages were \$579,716; is that right?

Mr. OSIAS. Approximately.

Mr. SIMON. And the mortgages on the land were \$807,000 more than the cost of the land; is that right?

Mr. OSIAS. Approximately, sir.

Mr. SIMON. So that the total amount of money that you received out of these mortgage proceeds, including the premiums, was \$4,880,000 more than the total costs; is that right?

Mr. OSIAS. That is right, but I'm personally liable to the leaseholds.

Mr. SIMON. You are personally liable on the \$1½ million of leasehold mortgages?

Mr. OSIAS. That is right.

Mr. SIMON. But you are not personally liable on the \$27½ million of FHA mortgages.

Mr. OSIAS. That is right.

Mr. SIMON. And of course the billion dollars that the Government has insured the mortgages on is security for your mortgages on the land; is that right?

Mr. OSIAS. Indirectly.

Mr. SIMON. Well, aren't they direct security for it?

Mr. OSIAS. Only the land is actual security.

Mr. SIMON. Well, aren't the buildings situated on the land?

Mr. OSIAS. That's right.

Mr. SIMON. And if the owner of the building—which happens to be you now, but might be the Government in the event of a default—if the owner of the building ever stops paying the ground rent then they lose the ownership of the building; is that right?

Mr. OSIAS. That's right.

Mr. SIMON. Is that right?

Mr. OSIAS. That is right.

Mr. SIMON. And the mortgage on the land comes ahead of the Government-insured mortgage on the building; is that right?

Mr. OSIAS. To that extent.

Mr. SIMON. And in each of these cases you signed a contract with FHA saying that in the event there was a default in these buildings the Government could buy the land to prevent or to preclude the owner of the land from taking over the buildings; is that right?

Mr. OSIAS. That's right, sir.

Mr. SIMON. And in that event the Government has to pay you a total of \$1,686,000 for the land; is that right?

Mr. OSIAS. That's right, sir.

Mr. SIMON. And that is \$230,000 more than the total amount of the mortgage is on the land; is that right?

Mr. OSIAS. That's right.

Mr. SIMON. So that the liability on the land mortgages is pretty theoretical; isn't it?

Mr. OSIAS. We got to pay it back in about 8 years. We got to pay that money back.

Mr. SIMON. But the security for it includes not only the land but buildings on which the Government has \$27½ million of the mortgages; is that right?

Mr. OSIAS. That's right.

Mr. SIMON. And you got rental on this land for 99 years at the rate of \$67,440 a year; is that right?

Mr. OSIAS. We take that money and we pay it to the mortgagee.

Mr. SIMON. Well, you're going to either have one or the other, either have a mortgage on it or you're going to get the rent; is that right?

Mr. OSIAS. That's right.

Mr. SIMON. And that goes for 99 years?

Mr. OSIAS. That's right.

Mr. SIMON. And if the buildings should still be there at the end of the 99 years they can renew for another 99 years at the same rental; is that right?

Mr. OSIAS. That's right.

Mr. SIMON. Thank you, sir.

Mr. OSIAS. I would like to just make one short statement, if I may. Senator BUSH. Go ahead.

Mr. OSIAS. I am one of the very few builders in the United States that hasn't taken a dime out. All this so-called windfall is in the corporations and I'm now working with a mortgage company to pay off all of the mortgages and take the Government off the hook completely.

Mr. SIMON. Mr. Osias, I think that's a very laudable idea, but for 3 or 4 years the tenants have been paying rent based upon a carrying charge of 6½ percent on a mortgage that was a pretty inflated mortgage, isn't that so?

Is that right, Mr. Osias?

Mr. OSIAS. Well it isn't right, because we're collecting a much lesser amount of rent than what I had been allowed by FHA.

Mr. SIMON. Well, now you knew the law said these mortgages were supposed to be 90 percent of estimated cost?

Mr. OSIAS. Yes. Yes, sir.

Mr. SIMON. And your mortgages were 115 percent of cost, weren't they?

Mr. OSIAS. Of actual cost.

Mr. SIMON. Yes. And the law said that the estimated cost was to be as close as possible to the actual costs of efficient builders.

Mr. OSIAS. Except that we couldn't foresee a lull at a later date in the building business where it happened to work out where I was able to build to a lesser amount than what the estimated cost was at the time the estimated cost was submitted.

Mr. SIMON. When did you build the first of these buildings?

Mr. OSIAS. Back in 1948 and 1949.

Mr. SIMON. Which was that?

Mr. OSIAS. Kew Gardens development.

Mr. SIMON. Is that Kew Gardens Hills or Kew Gardens Apartments?

Mr. OSIAS. Kew Garden Hills Development Corp.

Mr. SIMON. Kew Gardens Hills was built in 1948 and 1949; Is that right?

Mr. OSIAS. That's right.

Mr. SIMON. When did you build Kew Gardens Apartments?

Mr. OSIAS. Around 1950-51 I imagine.

Mr. SIMON. When did you build 102d Street?

Mr. OSIAS. Around the same time.

Mr. SIMON. And when you say 1950-51 I take it you mean that some of the buildings were built in 1950 and others of the project were built in 1951; is that right?

Mr. OSIAS. Yes. I'd say around—mostly 1951 I imagine.

Mr. SIMON. Well then these buildings that you built, you started building them in 1948 and you finished building them in 1951; is that right? Over a period of 4 years.

Mr. OSIAS. Well, there was a lull. I mean in 1948-49 we built one set of buildings and then we didn't start again until around 1950.

Mr. SIMON. Yes, but what I was trying to point out, you said a minute ago you couldn't foresee in advance that you were going to be able to build for less than the mortgages, but you always did it except in this one case where you didn't or rather where you did put the land in, which was a relatively small difference. But in every other case you always came out way ahead, including those you built in 1948, those you built in 1949, those you built in 1950, and those you built in 1951.

Now by 1951 shouldn't you have had the experience of your 1948 and 1949 buildings to help you in coming to a more accurate estimate?

Mr. OSIAS. Well, it cost me more money in 1948, sir.

Mr. SIMON. But that didn't—

Mr. OSIAS. And that probably did more to increase the estimated cost because of the fact that it was higher to build in that particular year.

Then in 1950-51 when I built the other buildings there happened to be a lull, which I couldn't foresee.

Mr. SIMON. That is very interesting. I take it, then, you are saying that the first of these buildings you built was Second Kew Gardens Hills, Inc.; is that right?

Mr. OSIAS. The first one we built was the one that cost me more. That is Kew Gardens Hills development.

Mr. SIMON. I see. What is the second one you built?

Mr. OSIAS. The next three was the Second Kew Gardens Hills, Inc., Third and Fourth.

Mr. SIMON. Then was Second Kew Gardens the second one you built?

Mr. OSIAS. No, there was a group. The three of them were probably built around the same time.

Mr. SIMON. That was in 1948 and 1949?

Mr. OSIAS. No, that was 1950, 1951, in that area.

Mr. SIMON. Just a moment ago you said that Kew Gardens Hills was built in 1949 and 1949 and Kew Gardens Apartments in 1950 and 1951.

Mr. OSIAS. Well, I haven't got the records of the exact years, but I would probably say that the three jobs, Second Kew Gardens, Third and Fourth, were built around maybe 1949, toward 1950, mostly 1950, and Kew Gardens Hills Development Corp., the first corporation was built around 1948, 1949. There may have been a skip of a couple of years.

Mr. SIMON. I notice the biggest windfall you had percentagewise was in the second Kew Gardens, which is the second building you built. There we had \$3 million mortgage and a \$600,000 windfall.

Mr. OSIAS. What do you want to have me say?

Mr. SIMON. I don't want to have you say anything.

Mr. OSIAS. What is the question on that again?

Mr. SIMON. You said a few minutes ago that the reason you were able to mortgage out is because in the later buildings the market softened. You didn't use those words, but that was the gist of it, and that is how you were able to come out ahead.

Mr. OSIAS. Yes.

Mr. SIMON. Yet the second building you built had the biggest windfall in it?

Mr. OSIAS. That is because 2 years hence there was a large softening, to put it in your words, of the market, that took place between 1948-49 when I built the first one, and around 1950 I built the second Kew Gardens Hills. That is probably the reason that that showed a greater difference.

Mr. SIMON. Are you telling me now, of the 20 buildings that 19 of them were built in 1950, 1951?

Mr. OSIAS. No. Let me try to give you again about the years. The Kew Gardens Hills Development Corp. was around 1948, 1949.

Mr. SIMON. All right.

Mr. OSIAS. The three Kew Gardens Hills jobs were built around 1950, 1951. Then the other 16, six-story jobs, were built around 1951, the middle part of 1951.

Mr. SIMON. Then what I said a minute ago is true, that you claim that all 19, other than this Kew Gardens development was built in 1950 and 1951; is that right? Let me put it in a more simple way. Other than Kew Gardens Hills development, were any of these built before 1950?

Mr. OSIAS. No.

Mr. SIMON. None of them built before 1950?

Mr. OSIAS. That is right.

Mr. SIMON. I take it you know that the law expired March 31, 1950.

Mr. OSIAS. The Kew Gardens Hills Development Corp. was built in 1948, 1949.

Mr. SIMON. Were any others built before 1950?

Mr. OSIAS. No, sir.

Mr. SIMON. May I refresh your recollection by calling your attention that the law expired on March 31, 1950?

Mr. OSIAS. I wouldn't know. All I know is that I built these jobs in those years.

Mr. SIMON. Thank you.

Senator BUSH. Any further questions?

Mr. KENNEY. Can you give us your figure on the total number of units that you have constructed to meet the critical housing need of the war years and subsequently?

Mr. OSIAS. 3,201 apartments.

Mr. KENNEY. Are those still in your possession? Do you still own them?

Mr. OSIAS. I own every one of them.

Mr. KENNEY. Did you build those for investment purpose?

Mr. OSIAS. Originally, yes; that is right.

Mr. KENNEY. As well as to serve the critical housing shortage?

Mr. OSIAS. Yes, sir.

Mr. KENNEY. How long have you been in the construction business?

Mr. OSIAS. Thirty-four years.

Mr. KENNEY. Isn't that the real reason why you are able to construct for less than the mortgage because you have 34 years building experience, you have the know-how and the equipment to do so?

Mr. OSIAS. That is right, sir.

Mr. KENNEY. The amount of funds which was mortgaged out, that is the excess of mortgage over cost, has been repaid, has been amortized in your monthly payments?

Mr. OSIAS. A substantial amount, and I have not taken out any money from the so-called windfall. I did not make any distribution. All the money of the so-called windfall, whatever amount of millions might be involved, are still intact in the corporation.

Mr. SIMON. What is your intention with respect to those funds; is it to apply it on the mortgage?

Mr. OSIAS. I am now working on an arrangement and I believe that I might be successful. The only unfortunate part now is that they want to penalize me to pay this money out. I am trying to reduce that penalty. The mortgage company wants 8 percent for me to pay off this mortgage. I have interested a private institution to take these mortgages provided that I am not penalized.

I am working toward that end. The FHA wants 1 percent as a penalty in order for me to pay these mortgages off. What I want to do, and because of the fact that I am 100 percent rented in most of these houses—100 percent rented, out of 2,500 apartments I have no vacancy—I want to get the Government off this thing to avoid all investigations and everything else, and turn this over to a private mortgage company, which I think I will be successful in doing.

Of the amount of money that I now have in replacement funds, amounting to \$317,410—

The CHAIRMAN. Is that a depreciation fund?

Mr. OSIAS. No, that is a replacement fund that I built up that the FHA insists that I build up.

Mr. KENNEY. That is a reserve for the replacement of equipment which has a short life?

Mr. OSIAS. That is right. That amounts at the present time to \$317,410.

Mr. KENNEY. You have no interest in that fund?

Mr. OSIAS. I have no interest except that if I pay the mortgage off to the Government, I can take advantage of this \$417,000, together with the \$3 million—let's even say to get into the \$3,492,000, and any other moneys that I may have made as a profit. I want to take that money and pay off the Government completely. I have never taken out a dime. I have got it intact now. The only thing I am working on now is to see whether I can work something out. I have told that to Senator Capehart. I want to see if I can work something out with the mortgage companies and with the FHA to go easy on penalty. Once I do that, and I can get them to go easy on me and not penalize me to pay off this money, I believe that I can get banks, who have already shown an interest in these jobs because they are 100 percent rented, and most of them are 6-story elevator apartments, located within the finest section, within two blocks of the subway in Forest Hills, Queens, and I want to pay off the mortgages completely.

Senator BUSH. In other words, is this correct that what you intend to do is to take your profits, reduce the mortgage, increase your equity, and discharge the FHA insurance entirely, so that you are back on a conventional basis?

Mr. OSIAS. That is what I want to do; yes, sir.

Senator BUSH. Did I understand you correctly to say that you couldn't get a replacement mortgage after applying your \$4 million of profits to paying down this mortgage that they would want to charge you 8 percent interest?

Mr. OSIAS. No; but Senator—

Senator BUSH. What about the 8 percent? Did I misunderstand that?

Mr. OSIAS. Now, look—

Senator BUSH. That seems like an unconscionable interest rate?

Mr. OSIAS. Here it is, right here, 8 percent—

Mr. KENNEY. You are talking about the penalty required by the mortgagee to retire the indebtedness in full?

Mr. OSIAS. That is correct, that is what I want to do.

Mr. KENNEY. What are the provisions of the deed of trust in respect to retiring the mortgage in full? Is there a provision to require the payment of an 8 percent fee?

Mr. OSIAS. Yes; right there in that paper I handed up. It is printed on top, 8 percent, the very top line, I think it is.

Senator Capehart became a little puzzled about the fact that there would be a great amount of penalty required.

Mr. KENNEY. Was that a typical and customary charge made by lenders in this area to retire conventional mortgages?

Mr. OSIAS. I wouldn't know about conventional mortgages, but on this type of mortgage that is what they want.

I don't want to take the whole 8 percent off. If they will just take a small portion of it off, I think we can work it out. I am working toward that end.

Mr. KENNEY. Apparently they think pretty well of the mortgage to require such a penalty to pay it off?

Mr. OSIAS. That is right.

Mr. KENNEY. They don't want you to pay it off?

Mr. OSIAS. That is right. The properties at the present time have a tremendous value. If I wanted to sell these properties they would have a tremendous value. Therefore, I want to pay the Government off completely on this job—on all these jobs.

Mr. SIMON. Is the unwillingness of the holder of the mortgage to let you pay it off in any way due to the fact that that mortgage is guaranteed by the United States Government and just as good as a Government bond?

Mr. OSIAS. Wait a minute. Let's assume that that were so—

Mr. SIMON. Isn't it so?

Mr. OSIAS. I don't know the reasons behind it. All I know that present therein is an 8 percent penalty, plus 1 percent penalty to the FHA, that is 10 percent. If you take the \$27 million, they would want close to \$3 million to pay that off.

Mr. SIMON. But you do know that the mortgage that they hold is fully guaranteed by the United States Government?

Mr. OSIAS. I do know that, sir.

Mr. SIMON. Let me ask you this, on the \$4,800,000 profits that you got out here, you are paying income taxes. Did you ever pay income taxes on that?

Mr. OSIAS. We are waiting—it is in the corporations.

Mr. SIMON. Did you ever pay any income tax?

Mr. OSIAS. We are waiting to see what will happen, whether it is going to be regular income or whatever the case may be.

Mr. SIMON. That is what I thought. You are merely holding it there to see what happens in the Gross Morton case on income taxes; is that right?

Mr. OSIAS. Not necessarily. In my case I am primarily holding that money there to see if I can work out a deal to get this back in conventional—

Mr. SIMON. Did I hear you right a minute ago when you said you hadn't paid any income tax and you were waiting to see what happened in the Gross Morton case? Did I hear you right?

Mr. OSIAS. I want to correct that.

Mr. SIMON. Did I hear you right?

Mr. OSIAS. You did, but I would like to correct that.

Mr. SIMON. Your accountant has told you that that is not the right thing to say for your lawsuits?

Mr. OSIAS. Look, sir—when I want to pay off the Government I think I should get a little credit. We are here for the purpose of trying to see what we can work out, sir, on a wonderful solution. I think I should be encouraged, sir, to do a thing like that. I wouldn't want to now try to work it out as to why I am holding the money. I just told you all the money is intact. I made a mistake when I said I am waiting for that. I want to pay off the mortgages and get these buildings in conventional hands.

Mr. SIMON. You are saying you made a mistake, but you are not saying it wasn't truthful.

That is all. Thank you.

Senator BUSH. Do you want to have this back, this paper you handed up?

Mr. OSIAS. No, sir; you may keep it.

Senator BUSH. I would like to study that.

Is Mr. Peter Riccitelli in the room? Will you kindly come forward to the witness stand?

This is Mr. Peter Riccitelli. Will you raise your right hand, please? Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. RICCITELLI. I do.

TESTIMONY OF PETER RICCITELLI, WATERVLIET, N. Y.

Senator BUSH. Mr. Hogue is going to question you.

Mr. HOGUE. Mr. Riccitelli, you live in Watervliet, N. Y., do you?

Mr. RICCITELLI. Yes, sir.

Mr. HOGUE. You own your own home?

Mr. RICCITELLI. Yes, sir.

Mr. HOGUE. By whom are you employed?

Mr. RICCITELLI. I am employed by the Watervliet Arsenal.

Mr. HOGUE. What is your position?

Mr. RICCITELLI. Machine operator.

Mr. HOGUE. Did a salesman, a Mr. Charles, call on you back in 1952 representing the National Construction Co.?

Mr. RICCITELLI. Yes, sir.

Mr. HOGUE. In connection with some proposed improvements on your house?

Mr. RICCITELLI. Yes, sir.

Mr. HOGUE. Can you tell us what this salesman said to you?

Mr. RICCITELLI. The salesman came into my house on October 20 of 1952. Just before he come into the house I told him that my house was on a GI mortgage and——

The CHAIRMAN. May we have quiet in the committee room, please? Go ahead, sir.

Mr. RICCITELLI. And anything he was going to do to the property would have to be informed to the mortgage holder or the Veterans' Administration.

Later on I found out that he didn't——

Mr. HOGUE. Did you enter a contract on that day for some work to be done?

Mr. RICCITELLI. Yes, sir. On that day I signed a contract and an application, in pencil.

Mr. HOGUE. In pencil?

Mr. RICCIPELLI. Yes, sir.

Mr. HOGUE. That contract called for an application of a mastic coating on the house?

Mr. RICCIPELLI. Yes, sir.

Mr. HOGUE. And some additional work, as well?

Mr. RICCIPELLI. Yes, sir.

Mr. HOGUE. Was the work done within a few days thereafter?

Mr. RICCIPELLI. It was done 10 days after, just exactly 10 days, because that was the last day of the racing season up in Saratoga, the 30th of August.

Mr. HOGUE. Was this supposed to be financed through an FHA-guaranteed loan?

Mr. RICCIPELLI. Yes, sir.

Mr. HOGUE. Was the work satisfactory?

Mr. RICCIPELLI. No, sir.

Mr. HOGUE. What were the deficiencies?

Mr. RICCIPELLI. Well, he was supposed to have nailed down all sidings on the premises, the exterior, rather, and he also was supposed to do all the calking under each clapboard.

Mr. HOGUE. Was that done?

Mr. RICCIPELLI. No, sir.

Mr. HOGUE. Did the salesman say anything to you about paying you some money?

Mr. RICCIPELLI. He wanted to use my home as a model home and he would pay me \$25 for each customer I brought him, or I sent him.

Mr. HOGUE. Did you, thereafter, receive any payments from him?

Mr. RICCIPELLI. No, sir; not one cent.

Mr. HOGUE. Do you know whether or not that particular company did any houses in the vicinity?

Mr. RICCIPELLI. Not that particular company, because the company—

Mr. HOGUE. Do you know whether this particular salesman sold similar jobs in the community?

Mr. RICCIPELLI. Yes, this particular salesman, he done business through that area under a different building head.

Mr. HOGUE. In other words, he was representing more than one company?

Mr. RICCIPELLI. More than one company; yes, sir.

Mr. HOGUE. As a result of your investigation, did you believe that he was selling this job to you on the so-called home model plan, promising you compensation for other jobs in the vicinity and then going out and selling other jobs in the vicinity in the name of another corporation?

Mr. RICCIPELLI. Yes, sir; that is just exactly it.

Mr. HOGUE. You never received any money from him?

Mr. RICCIPELLI. No, sir.

Mr. SIMON. Do you know whether he told the other people that their house was going to be a model house, too?

Mr. RICCIPELLI. Yes, sir; he did. I can prove that.

Mr. HOGUE. You know what a completion certificate is; do you not?

Mr. RICCIPELLI. Yes, sir.

Mr. HOGUE. That is a document you sign when the work is done and has to be presented to the bank in order for the bank to get paid, or the contractor to get paid.

Mr. RICCITELLI. Yes, sir.

Mr. HOGUE. Did you ever sign a completion certificate?

Mr. RICCITELLI. No, sir; I never saw a completion certificate.

Mr. HOGUE. What subsequently happened? Did you make any payments?

Mr. RICCITELLI. On this loan I didn't pay one cent.

Mr. HOGUE. What was the name of the lending institution?

Mr. RICCITELLI. It was the Grammatan National Bank & Trust Co., Bronxville, N. Y.

Mr. HOGUE. Did they subsequently communicate with you and demand payment?

Mr. RICCITELLI. They did; yes, sir. They phoned me, I believe it was around November 15—around through there—of 1952.

Mr. HOGUE. And has suit been instituted against you?

Mr. RICCITELLI. Yes, sir.

Mr. HOGUE. How much is involved?

Mr. RICCITELLI. The job was supposed to be \$1,470. Through the loan the bank is calling for \$1,833.

Mr. HOGUE. Did you ever sign any papers or any note involving the \$1,833 amount?

Mr. RICCITELLI. No, sir.

Mr. HOGUE. Do you have the contract with you, or a copy of the contract that you signed?

Mr. RICCITELLI. Yes, sir.

Mr. HOGUE. Would you look at that and just tell us what the dollar payment is that contract calls for?

Mr. RICCITELLI. \$1,470.

Mr. HOGUE. But you are actually being sued on a note for \$1,833?

Mr. RICCITELLI. Yes, sir.

Mr. HOGUE. Do you have any recollection whatsoever of signing a note in that amount?

Mr. RICCITELLI. Never signed it.

Mr. HOGUE. Do you have any recollection of signing any note at all?

Mr. RICCITELLI. No, sir.

Mr. HOGUE. And the documents which you signed on the date which you signed the contract you say were signed in pencil?

Mr. RICCITELLI. In pencil. The application here—this application that I signed was questions and answers all on one side. This application that the bank has against me is questions and answers on both sides.

Mr. HOGUE. You have a photostat of the document that the bank has in its possession?

Mr. RICCITELLI. Yes, sir.

Mr. HOGUE. When was the first time you saw that document?

Mr. RICCITELLI. This copy came to me around—

Mr. HOGUE. We will read it.

Mr. RICCITELLI. I would say around the middle of October, because the payment called for the 3d of November of 1952, first payment.

Mr. HOGUE. Are you defending this lawsuit which has been instituted against you?

Mr. RICCIPELLI. Yes, sir.

Mr. HOGUE. Are you defending it on the ground that the documents which have been sued on are forged?

Mr. RICCIPELLI. Yes, sir.

Mr. HOGUE. Has the case come up for trial?

Mr. RICCIPELLI. Yes; but no decision has been given as yet.

Mr. HOGUE. I understand you are a veteran of World War II?

Mr. RICCIPELLI. Yes, sir.

Mr. HOGUE. You were over in Italy for about 3 months?

Mr. RICCIPELLI. 3 years, sir.

Mr. HOGUE. You are married and have children?

Mr. RICCIPELLI. I have two children.

Mr. HOGUE. You can't afford to pay this \$1,400 for a poor job?

Mr. RICCIPELLI. Positively not.

Mr. HOGUE. Would you have entered into the contract of the salesman had not promised you the \$25 a house?

Mr. RICCIPELLI. Pardon?

Mr. HOGUE. Would you have entered into this contract if the salesman who sold you the job had not promised you \$25 for other similar houses done in the vicinity?

Mr. RICCIPELLI. The reason I signed this contract, sir, is that he came in with the word that the FHA—and I didn't understand fully what the FHA was, only that I knew it was a Government agency—and that is the only reason I got this job. Otherwise, I never would have got it, because if I can remember now——

Mr. HOGUE. You say you didn't fully understand. In other words, you didn't understand at the time that the function which the FHA or the Government performed was merely to guarantee the loan that the bank made to finance this job?

Mr. RICCIPELLI. That is right.

Senator BUSH. Is it fair to say that you thought that in some way the Government was guaranteeing the performance of this job?

Mr. RICCIPELLI. Yes, sir.

Senator BUSH. And that therefore it would be a good job because the Government was behind it?

Mr. RICCIPELLI. That is the only reason I signed this contract.

Senator BUSH. Did you get that impression from the salesman, or did you have that impression before he talked with you?

Mr. RICCIPELLI. Well, I had that impression before he spoke to me about this FHA. The minute he mentioned FHA I figured that I wouldn't get stuck on the job.

Mr. HOGUE. Didn't he actually say to you that the FHA was back of it?

Mr. RICCIPELLI. Yes, sir, he said the FHA was in back of it. That is the only reason I signed this contract.

Mr. SIMON. Did he give you any indication of about how much money you might get out of the use of your home as a model?

Mr. RICCIPELLI. Yes, sir, he said \$25 for each customer that I sent to him, or to his company, rather.

Mr. SIMON. Did he say anything to indicate whether there would be any customers?

Mr. RICCIPELLI. Yes, sir.

Mr. SIMON. What did he say?

Mr. RICCITELLI. He mentioned—he came to my house with the word of Congressman Leo O'Brien, he had done Leo O'Brien's house. I went to see Leo O'Brien about this, sir. In fact, I have quite a few contracts in my hand. I have been following this thing for 4 or 5 months on my own.

I brought these contracts to Congressman O'Brien. I showed them to him. He thought that inasmuch as forgery was involved in my particular case, that the D. A. in Albany County should do something about it.

The way I got it, through the Congressman, he spoke to the D. A. and the D. A. couldn't do anything about it. I was down to the D. A.'s office. I spoke to his two assistants. They said they know the operator, they know the salesman, but still and all their hands were tied.

Mr. SIMON. What I had in mind was, at the time he sold you this contract did he tell you that they would put salesmen in the area to make other sales?

Mr. RICCITELLI. No, sir.

Mr. SIMON. If he promised you \$25 a house on every house they sold on yours, did he say anything that led you to believe that they were going to make any more sales in the area?

Mr. RICCITELLI. No.

Mr. SIMON. He didn't?

Mr. RICCITELLI. No; he didn't.

Mr. SIMON. He just said you would get \$25?

Mr. RICCITELLI. \$25. That is the first word he mentioned, was Congressman's Leo O'Brien's name.

Senator BUSH. I would like to get the connection of Congressman O'Brien. The salesman, when he came to you, mentioned Congressman O'Brien's name, and said he had done a job on the Congressman's house?

Mr. RICCITELLI. Yes.

Senator BUSH. Did you see the job?

Mr. RICCITELLI. Yes, sir; I was at the Congressman's house myself.

Senator BUSH. And you saw that he had done the job for the Congressman?

Mr. RICCITELLI. I didn't see him do it, but the Congressman told me, himself.

Senator BUSH. Did the Congressman say it was a satisfactory job?

Mr. RICCITELLI. He didn't care too much for it. He said he didn't care too much for the job, but there was a bunch of salesmen working in that area. This particular salesman mentioned Congressman O'Brien's name. Between the FHA and the Congressman's name, I figured it was a good deal that the job would be done correct.

Senator BUSH. Did you sign your papers after you saw the Congressman and talked with him?

Mr. RICCITELLI. I signed my papers before.

Senator BUSH. You had signed the papers before you went to the Congressman?

Mr. RICCITELLI. Yes, sir. That was August 20 I said, the contract and the application.

Senator BUSH. Did the Congressman indicate to you how much he had paid for the job that he had done on his house?

Mr. RICCITELLI. I believe he did. I think he said it was \$1,200.

Senator BUSH. He paid about \$1,200?

Mr. RICCITELLI. Yes, sir.

Senator BUSH. About the same as you had paid, or less?

Mr. RICCITELLI. He paid a little less, a smaller house.

Mr. SIMON. So the Congressman had bought the job but he didn't express satisfaction with it?

Mr. RICCITELLI. That is right, sir. He told me himself that these salesmen were going around building up business, through his name, mind you.

Senator BUSH. And without his consent?

Mr. RICCITELLI. He didn't like the idea.

Senator BUSH. He didn't like that?

Mr. RICCITELLI. Yes, sir.

Senator BUSH. I wanted to make that clear for the record that the Congressman himself was a victim, in your opinion.

Mr. RICCITELLI. Yes; that is right.

Mr. SIMON. Do I understand from you that there was a whole crew of these salesmen came in to work the area at one time?

Mr. RICCITELLI. I put it that way; yes, sir.

Mr. SIMON. And then they left; is that it?

Mr. RICCITELLI. Yes, sir.

Mr. SIMON. I suppose that is, because once they got some victims in an area it would be pretty hard to sell new people, so they have to sell everybody at once; is that it?

Mr. RICCITELLI. Yes, sir.

Mr. HOGUE. Did your investigation reveal that after they left there were a number of lawsuits brought against homeowners in the vicinity?

Mr. RICCITELLI. The lawsuits are still in action in Rensselaer County and Albany County. There are quite a few cases.

Senator BUSH. Thank you very much. I want to say the committee appreciates very much your cooperation with the committee this morning.

Senator BUSH. The next witness is Mr. Stanley Cooper.

Mr. Cooper, will you raise your right hand, please? Do you solemnly swear that the testimony you will give to this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF STANLEY COOPER, PERMASTICA CORP., ACCOMPANIED BY ABRAHAM L. DORIS, COUNSEL

Mr. COOPER. Yes, sir.

Senator BUSH. Be seated and give your correct name and address to the clerk.

Mr. COOPER. Stanley Cooper, 1773 East 12th Street, Brooklyn.

Senator BUSH. Will you kindly pull that microphone closer to you so that we can hear you better.

Mr. Hogue.

Mr. HOGUE. Mr. Cooper, are you the manager of the Permastica Corp.?

Mr. COOPER. That is right.

Mr. HOGUE. And does that have offices at 233 Riverdale Avenue?

- Mr. COOPER. 220 Riverdale Avenue.
- Mr. HOGUE. And 1773 East 12th Street, in Brooklyn?
- Mr. COOPER. That is my home. That is where I live.
- Mr. HOGUE. Do you have offices there?
- Mr. COOPER. No.
- Mr. HOGUE. Does the company have any other offices?
- Mr. COOPER. That is the only office.
- Mr. HOGUE. It was formerly on Montague Street in Brooklyn; is that correct?
- Mr. COOPER. Yes.
- Mr. HOGUE. Is Mr. Harry Forman the president and sole stockholder of that company?
- Mr. COOPER. He is the sole owner.
- Mr. HOGUE. You are the manager?
- Mr. COOPER. That is right.
- Mr. HOGUE. Where does Mr. Forman live?
- Mr. COOPER. I believe at 611 West 239th Street, in the Bronx.
- Mr. HOGUE. What is the business of the corporation?
- Mr. COOPER. We surface the exteriors of homes and industrial buildings.
- Mr. HOGUE. Do you also do incidental repair work in connection with that?
- Mr. COOPER. Anything in connection with it we do.
- Mr. HOGUE. How about getting your business, do you have salesmen?
- Mr. COOPER. That is correct.
- Mr. HOGUE. Do you advertise by circulars and in the newspaper?
- Mr. COOPER. That is correct.
- Mr. HOGUE. Approximately how many salesmen do you have?
- Mr. COOPER. Right now we have exactly six.
- Mr. HOGUE. How long have you been with the company?
- Mr. COOPER. Several years; about 3 years.
- Mr. HOGUE. Haven't you been with it since 1951?
- Mr. COOPER. That is right.
- Mr. HOGUE. About how many salesmen have you had over that period of time, approximately?
- Mr. COOPER. I sent Mr. Simon a list of them the other day. If I remember correctly, it must have been about 40 or so—I don't remember the exact figure.
- Mr. SIMON. About 45?
- Mr. COOPER. I don't remember the exact number.
- Mr. HOGUE. Do you enter into any written contract with these salesmen?
- Mr. COOPER. No.
- Mr. HOGUE. Oral arrangements?
- Mr. COOPER. Yes.
- Mr. HOGUE. What is the basis of their pay?
- Mr. COOPER. The basis of payment is on a commission basis.
- Mr. HOGUE. What is the rate of the commission?
- Mr. COOPER. Ten-percent commission. That is the basis.
- Mr. HOGUE. And what does the company charge?
- Mr. COOPER. The basic charge is per hundred square feet, plus any extras, such as repair work or painting, and the basic price is \$40 per square 100 feet.

Mr. HOGUE. And you say the salesmen only get 10-percent commission?

Mr. COOPER. Of that price; that is correct.

Mr. HOGUE. Have you had any instances in which your salesmen have bartered with the property owners for the price, increased the price?

Mr. COOPER. In most cases I would say the price is less. I would say possibly a few deals over. They would never be exact. When measuring height, and so forth, those things can never be exact, but I would say almost all cases would be below that figure. In certain isolated cases it would be above.

Mr. HOGUE. You have had cases in which the salesmen have gone in excess of the \$40 per square foot?

Mr. COOPER. That is right.

Mr. HOGUE. Do these salesmen go out in the field with the FHA papers, such as loan applications, the note?

Mr. COOPER. We finance our paper under the FHA, if that is what you mean, when we deal with the banks. They go out with contracts and regular forms.

Mr. HOGUE. Are signatures to those forms obtained in blank?

Mr. COOPER. I don't understand.

Mr. HOGUE. Are the signatures to those forms obtained with the forms being blank?

Mr. COOPER. What do you mean?

Mr. HOGUE. When a contractor or salesman goes out for you, and he brings back an order, are the orders and the application forms, the notes, signed without the body being filled in?

Mr. COOPER. The contracts are completely filled in. The owner gets a copy of the contract. In addition to that, they bring back an application signed, which is an application for the loan, and a note signed by the people, in blank.

Mr. HOGUE. They are signed in blank?

Mr. COOPER. That is correct.

Mr. HOGUE. And what is the purpose of that?

Mr. COOPER. We submit the note to the bank in blank so that there shouldn't be any errors. The bank fills it out. That is the general practice.

Mr. HOGUE. Is that a general practice?

Mr. COOPER. That is correct, with all the banks we have done business.

Mr. HOGUE. What banks do you do business with?

Mr. COOPER. We have done business with Manufacturers Trust Co., National City, Prudential Savings, Roslyn National Trust Co. of Roslyn, N. Y.

Mr. HOGUE. Don't you think that sort of thing could lead to the possibility of fraud?

Mr. COOPER. No.

Mr. HOGUE. You don't. Were you in the room when the last witness was on the stand?

Mr. COOPER. Partially; yes.

Mr. HOGUE. You realize that was a case in which it was a forgery, but the amount of the contract—

Mr. COOPER. May I say the contract is submitted together with the note and application to the bank, and on the contract you have the amount that is to be financed.

Now, if the note is in a different amount, the note will bear the contract price, plus interest.

Mr. HOGUE. Nevertheless that sort of practice does give an opportunity to someone, if he so desires, to make it different.

Mr. COOPER. No, because the contract has the amount on it, and the bank will guide themselves according to the contract which has a stated amount, in addition to the signature of the homeowner. Therefore, you would have to change the figures on the contract. Inasmuch as the contract figures are not changed, the bank will fill all of that out.

Mr. HOGUE. How can you explain that in the case of the last witness on the stand, how that actually happened?

Mr. COOPER. What happened?

Mr. HOGUE. The amount of the note was different from the amount of the contract.

Mr. COOPER. I said the amount of the note will be the amount of the contract, plus interest. The amount on the contract does not bear any interest.

Mr. HOGUE. In the case of the last witness on the stand the contract which he signed called for some \$1,400.

Mr. COOPER. Yes.

Mr. HOGUE. The note, on which a demand was made on him, called for a sum in excess of \$1,800.

Mr. COOPER. The difference was probably the interest, \$400 interest. That is what I was led to believe. Or possibly you didn't get the drift of it.

Mr. HOGUE. Do you mean to say that it is a practice for the interest to be added to the amount of the note?

Mr. COOPER. Not the note, the amount of the contract. When people enter into a contract with a corporation they are to pay the corporation that amount of money. That has nothing to do with the interest that they are to pay for the bank in issuing them a loan. That has nothing to do with the firm.

Mr. HOGUE. Mr. Cooper, when you came with your company, did you find that the salesmen were practicing the so-called model-home approach?

Mr. COOPER. That is correct.

Mr. HOGUE. And that was in 1951?

Mr. COOPER. That is correct.

Mr. HOGUE. And did that continue for several years?

Mr. COOPER. That is correct.

Mr. HOGUE. Until when?

Mr. COOPER. Until we were notified by the FHA that those practices were against regulations. Up until that time we did not know. We were notified—

Mr. HOGUE. Just a moment. Up until that time you did not know?

Mr. COOPER. That is correct.

Mr. HOGUE. When were you notified?

Mr. COOPER. We were notified in 1953. I was called, I went down to the FHA.

Mr. HOGUE. Let me interrupt you a minute. During that entire period of time that your salesman were using this model-home approach, would you say your company did not know it was contrary to FHA regulations?

Mr. COOPER. I did not know. And I don't believe the company knew.

Mr. HOGUE. Do you know whether Mr. Froman knew?

Mr. COOPER. I couldn't swear for Mr. Froman. I don't think he knew.

Mr. HOGUE. Do you know whether any investigation was made as to any FHA regulation in this deal?

Mr. COOPER. Prior to that time?

Mr. HOGUE. Yes.

Mr. COOPER. Not to my knowledge.

Mr. HOGUE. In other words, the company was engaging in business in the field——

Mr. COOPER. Excuse me. Mr. Froman was never in a similar business prior to this time. He never had any such dealings.

Mr. HOGUE. Nevertheless, he engaged in the business for a period of 2 or 3 years without paying any attention to whether there were any FHA regulations; is that correct?

Mr. COOPER. When you deal you don't deal more or less directly with the FHA. You deal with banks.

Mr. SIMON. In that period from 1951 to 1953, how many jobs did the salesmen sell on the model-home plan?

Mr. COOPER. I would assume possibly all of them, or close to all of them.

Mr. SIMON. How many jobs was that?

Mr. COOPER. Offhand I don't want to say anything, but I can give you round figures just from memory.

Mr. SIMON. A couple of thousand jobs?

Mr. COOPER. No, no; in the hundreds. I would say possibly 300.

Mr. SIMON. Three hundred jobs?

Mr. COOPER. I don't want to make a commitment, but I would say that is close enough for your purpose.

Mr. SIMON. How many homeowners did you pay commissions to for using their houses as a model?

Mr. COOPER. All those that were entitled to it.

Mr. SIMON. Is that all 300 of them?

Mr. COOPER. Let me explain. You seem to be confusing the model home. Model home does not mean that any customer was supposed to receive money. The bonus plan——

Mr. SIMON. Let's make clear what we do mean.

Mr. COOPER. O. K.

Mr. SIMON. Your company sold approximately 300 homeowners?

Mr. COOPER. That is correct.

Mr. SIMON. On the model-home plan?

Mr. COOPER. Model home and bonus payments.

Mr. SIMON. That means that 300 homeowners were told that they would get some money on sales——

Mr. COOPER. On future sales that they would recommend that would result in a sale.

Mr. SIMON. Or sales in an area around their home.

Mr. COOPER. In our booklet it is specifically stated only homes that they would specifically recommend that would become a sale.

Mr. SIMON. Didn't your salesmen also say that if any home within a radius of a certain area around them bought your job——

Mr. COOPER. That, I don't know what a salesman would say in the house. I am giving you more or less the principle upon which the corporation operated.

Senator BUSH. Mr. Cooper, did your company pay any bonuses?

Mr. COOPER. Yes, sir.

Senator BUSH. Under the model-home agreement?

Mr. COOPER. That is correct, anybody that, as I told you, was entitled to it.

Senator BUSH. Now, wait a minute. Did you actually pay bonuses under the model-home approach?

Mr. COOPER. That is right.

Senator BUSH. To homeowners?

Mr. COOPER. That is correct.

Senator BUSH. Can you estimate the number of clients or customers who received bonus payments under the model-home approach?

Mr. COOPER. I am not prepared to give you any exact figures.

Senator BUSH. You gave us an estimate.

Mr. COOPER. I gave you——

Senator BUSH. Wait a minute. Let me ask you a question. You gave us an estimate of approximately 300 homes which were sold improvements under the model-home approach. Can you estimate what percentage of those received any bonus payments from your company?

Mr. COOPER. I wouldn't care to give any estimate like that, offhand, but——

Senator BUSH. Can you give us an idea, a generalization?

Mr. COOPER. Possibly 5 or 10 percent.

Senator BUSH. Possibly 5 or 10 percent?

Mr. COOPER. Yes, sir.

Senator BUSH. So that of the 300, all of which had been sold under the model-home-approach agreement, possibly 5 or possibly 10 percent did receive bonus payments?

Mr. COOPER. That is right. I am not giving you exact figures.

Senator BUSH. I understand they are not exact but your estimate is that, which would indicate that 90 to 95 percent of them which were promised bonus payments didn't receive any.

Mr. COOPER. They were promised under certain circumstances.

Senator BUSH. That is right, but under those circumstances did not receive any?

Mr. COOPER. If they complied with it I said they did. I said anybody that was entitled to it received it, and possibly only 5 percent or so were entitled to it.

Senator BUSH. That will be all. Thank you very much.

Mr. DORIS. May I, as representing the Permastica Corp., offer for the record some documents as to the type of work this company does and as to the explanation——

Senator BUSH. Do you care to be sworn?

Mr. DORIS. I don't mind being sworn.

Senator BUSH. Do you solemnly swear that the testimony and information which you will give to this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. DORIS. I do.

Senator BUSH. What is it you would like to put in the record?

Mr. DORIS. I am Abraham L. Doris of 1440 Broadway, Manhattan, attorney for the Permastica Corp. There was an understanding in this trade, I am informed—

Mr. SIMON. What do you mean by "understanding in the trade"?

Mr. DORIS. That a bonus could be offered by a salesman.

Mr. SIMON. What do you mean by "an understanding in the trade"?

Mr. DORIS. That was the custom. It is substantiated by the fact that in the FHA title I completion certificate, as originally issued by the so-called Dealer Guide for FHA title I loans, and this was revised in April 1951, printed apparently under Government auspices.

Senator BUSH. Was it printed under Government auspices?

Mr. DORIS. Yes. Senator, if you will look at the small print there, you will find no statement that a bonus cannot be given.

Senator BUSH. You will find what?

Mr. DORIS. No statement whatsoever inhibiting the giving of a bonus.

Mr. SIMON. And there is nothing in there against murder; is there?

Mr. DORIS. Oh, now, listen, counselor.

Mr. SIMON. It does not say the things you can't do.

Mr. DORIS. What I am trying to bring before you, Senator, is this, that subsequently, after Mr. Cooper of this company was asked that, they took the matter up with the New York office here and there was inserted in this FHA title I completion certificate an additional clause that "borrower has not been given or promised a cash payment or rebate nor has it been represented to the borrower that he will receive a cash bonus," and so forth.

Senator BUSH. Why do you suppose that was put in there?

Mr. DORIS. That was put in because there was some complaint about it.

Senator BUSH. FHA wanted to stop the practice.

Mr. DORIS. That is right, and I think it is proper to do so.

What I am trying to convey to you is that this corporation—I am speaking for this corporation only—was not aware of the fact that its salesmen could not go out and if John Jones got a good job and his neighbor wanted a similar job and the salesman wanted to promise him \$50, there was no inhibition against that.

This company took the matter up directly, and I have in my possession copies of letters that were transmitted between this company and the New York office of FHA on that point. It was not until the latter part of last year that they were made fully aware of this inhibition.

Mr. SIMON. In other words, you distinguish between what FHA expressly told them they couldn't do and the morals or ethics of doing business in the community. And you say that as long as FHA didn't tell them they couldn't use the bonus plan that you think there was nothing immoral or unethical about using it.

Mr. DORIS. That is not the point, Mr. Simon. They were not aware of the fact that it was even immoral at the time because we know that

normally in business quite often bonuses are given to salesmen for special work or for getting additional business.

In other words, the FHA itself, I submit, did not put it in writing, in print until later on. There you have it, as I have explained it.

Mr. HOGUE. You say the company was not made fully aware of the fact that it was even immoral until the end of last year?

Mr. DORIS. I think it was in October. It may have been in May.

Mr. HOGUE. That is what I want to bring out.

Senator BUSH. Now I would like to ask the witness this question: Are the records of this corporation still available to you?

Mr. COOPER. To me?

Senator BUSH. Yes. Are the business records of this corporation still available to you?

Mr. COOPER. Yes; I work for the firm.

Senator BUSH. You do work for the firm.

Mr. COOPER. Yes, sir.

Senator BUSH. The committee would like you to give us a list of the bonus payments that were made under this agreement.

Mr. COOPER. Surely.

Senator BUSH. As soon as you possibly can. Kindly mail that list to the Senate Banking and Currency Committee, Senate Office Building in Washington.

Mr. COOPER. Surely.

Mr. DORIS. I want to submit further, Senator, if I may, for this company the type of work they have been doing, the commendations they have been getting in writing. They have been doing this work for large banks, for the National City Bank of New York; they did a job for them in Court Street, in Brooklyn, and in Bay Ridge, in Brooklyn.

I would like to offer for the record a copy of the contract, also a photo of the type of work that was done.

Mr. SIMON. Do you know how many homeowners have made complaints about the type of work that this company has done?

Mr. DORIS. We only know of 2 or 3 and we are willing to explain those.

Mr. SIMON. You only know of 2 or 3?

Mr. DORIS. Yes.

Mr. SIMON. What effort have you made to find out?

Mr. DORIS. I have been informed——

Mr. SIMON. By whom?

Mr. DORIS. By Mr. Cooper and Mr. Froman.

Mr. SIMON. You, I take it, merely act as their lawyer and you know only what they tell you.

Mr. DORIS. That is very true.

Mr. SIMON. We can help you by giving you a substantial number of complaints, not just 2 or 3.

Mr. DORIS. We would like to have every one of them. We are prepared here——

Mr. SIMON. If you will wait a few minutes, we will give you one right now.

Mr. DORIS. We are prepared today to explain a complaint made by a man by the name of Clark, another by the name of Muller, a third fellow we had to sue. Two of these are out of the jurisdiction of the FHA altogether.

As the old saying goes, the evil that people do lives after them. You don't get the good and the good is not put in the press or put before you.

I have here at least 15 letters of commendation, from banks, from the managing staff of the New York News, letters of commendation as to the type of work these people have done. Where there was a complaint they rectified it promptly.

With your permission, Senator, I would like to have photostats of these put into the record.

Senator BUSH. Will you have the photostats made then and deliver them to the committee for that purpose?

Mr. DORIS. We will be very glad to.

Senator BUSH. We will be glad to receive such.

Mr. DORIS. In the interim I want to give you one from the Manufacturers Trust Co.

Senator BUSH. We will take that, glad to have it.

Mr. DORIS. I want to give you another from the Roslyn National Bank.

Mr. SIMON. Are you going to give us the letter of the Central National Bank of Yonkers, too?

Mr. DORIS. You want a letter from them?

Mr. SIMON. Are you going to give us that?

Mr. DORIS. Central National Bank?

Mr. SIMON. Yes, of Yonkers.

Mr. COOPER. Central National Bank—No. 1, we have no letters from them. They had sent to the FHA at one time a letter in regard to a case that we canceled out and never was in effect.

Mr. SIMON. Isn't it a fact that the Central National Bank of Yonkers refused to do business with you because of complaints they received?

Mr. COOPER. That I would say is false.

Mr. SIMON. Is it false that the Central National Bank of Yonkers, N. Y., refused to do business with you because of complaints they had received?

Mr. COOPER. I say again, in my opinion that is false. We did business with Central National Bank for a few months. We still have an account there. When we were moving up into Yonkers from Brooklyn we were looking to establish a local bank, and Mr. Froman went in to the Central and they wanted to do business with us.

He spoke to, I believe, a Mr. Lockwood. Subsequently we gave them in a period of a few months quite a bit of business.

Mr. SIMON. When was that?

Mr. COOPER. I would say around March, April, or May, around that.

Mr. SIMON. I have a letter dated April 15, 1954, from the assistant vice president—

Mr. COOPER. Is that Mr. Lockwood?

Mr. SIMON. Arthur Lockwood.

Mr. COOPER. He is not with them now, but let me continue, if I may.

Mr. SIMON. You mean they fired him because of this?

Mr. COOPER. No, he was transferred to another bank.

He called me up one day—this was after the Muller incident, and you are aware of this Muller incident but I will go over it so that all members of the committee might also be aware of it.

Mr. SIMON. Let me see if I am misinformed or whether I have a false document. He wrote the director of FHA in New York on April 15, 1954, that as a result of complaints he was "severing relations with this dealer," meaning your company, "immediately." Is that false?

Mr. COOPER. All right. He called me up approximately that day and said, "Effective immediately, we don't care to do business with you." He didn't mention complaints. You said, "as a result of complaints." To my knowledge, no.

Mr. SIMON. Then your answer that it was false is only because I included "because of complaints?"

Mr. COOPER. That is correct.

Mr. SIMON. And you want merely to say that he severed relations with you?

Mr. COOPER. Yes. If I may go over that particular case, this particular woman went into the Central National Bank—

Mr. DORIS. You mean Kate Muller?

Mr. COOPER. That is right, and she mentioned to this Mr. Lockwood that she had entered into a contract with the Permastica Corp. in the amount, I believe, of \$2,100. She was a widow. She was more or less looking to cancel out the contract. I think this was on a Monday, and I think Friday she had entered into the contract.

She told him that certain cash bonuses were offered by a gentleman from our organization.

Mr. SIMON. Not only on jobs that she sent in but on any—

Mr. COOPER. We never did any work. Let me explain the whole case.

Mr. SIMON. Let me read you what Mr. Lockwood wrote to the director of FHA.

Mr. COOPER. Is that in regard to the Muller case?

Mr. SIMON. Yes.

Mr. COOPER. I received a copy of that.

Mr. SIMON. Let's put that in the record:

On Monday, April 12 one Kate E. Muller, residing at 37 Cross Street, Bronxville, N. Y., came to the Central National Bank of Yonkers and spoke to Arthur F. Lockwood, assistant vice president, in connection with the above corporation—and "the above corporation" is Permastica Corp.

She stated that one Mr. Gordon, sales representative of this corporation—do you have a sales representative named Gordon?

Mr. COOPER. That is right.

Mr. SIMON (continuing):

had approached her in regard to doing her house with the process offered by this company, that a complete job would be done for the sum of \$2,340.

Mrs. Muller stated that she mentioned that this price was too high, and Mr. Gordon immediately offered to reduce said price by \$300 providing she would allow his corporation to put a sign on her lawn stating that they were doing the work on her house.

As an additional inducement he likewise offered her, according to her statement, the sum of \$50 in cash for this particular job and \$50 in cash for any other jobs which he might secure in her neighborhood.

Is that right?

Mr. COOPER. The letter is correct as far as he was advised. Now if I may continue I would like—

Mr. SIMON. Is that what happened?

Mr. COOPER. As far as Mr. Lockwood was concerned, yes.

Mr. SIMON. As far as Mrs. Muller was concerned—

Mr. COOPER. No.

Mr. SIMON. I would suggest, Senator, that perhaps what we should do is get Mrs. Muller at the next hearing before the committee and have Mrs. Muller and Mr. Cooper both tell their stories.

Mr. DORIS. Let's get Mr. Gordon here too. Mr. Gordon denies any such thing.

Mr. COOPER. I would like to give the facts of the case.

Senator BUSH. The committee believes that under the circumstances it would be best to postpone any further comments from you until we have Mrs. Muller here.

Mr. DORIS. And Mr. Gordon.

Senator BUSH. Yes.

Mr. DORIS. Let me try to shorten this, Senator. I told you yesterday I was willing to cooperate with you and the committee, and I will. I want to save time. We will have Gordon here. We will have Mr. Steele here, another salesman. In fact he is here today at my direction because I was told the FBI was trying to subpoena him. And if there are any other salesmen of this organization that you want, we will have them here.

Senator BUSH. Thank you.

Mr. DORIS. I really mean that.

Senator BUSH. We understand that you do, yes.

Mr. DORIS. I have been doing this same kind of work officially for over 25 years that you and your counsel are doing.

Senator BUSH. We thank you very much for those assurances, and I think that will be all today for this witness.

Did you have anything else you wanted to put in the record?

Mr. DORIS. Yes, the photostats of all these letters of commendation.

Mr. SIMON. Would you give us at the same time all the letters of complaint so that we can have both sides?

Mr. DORIS. Yes, sir. We have been told about the Clark case, the Muller case, and there is another case where we had to sue a man by the name of Nicholson. He went to the district attorney in Brooklyn and the complaint was thrown out. That is the only case, I believe, where we had to sue.

Senator BUSH. The committee will receive such information as you wish to submit and we will have to review it before we agree to put it into this record, but we will retain it for our files in any case.

Mr. DORIS. I respectfully submit, sir, that merely picking out 2 or 3 or even 4 letters of complaint from certain people definitely should be weighed in the balance against a huge stack of letters of commendation from banks and from newspapers and others.

Senator BUSH. I am not greatly impressed with this letter which you submit as a letter of commendation. I will read it and leave it to you where the commendation is. It is addressed:

To Whom It May Concern:

The Permastica Corp. has been one of our approved dealers under title 1 FHA improvement program since May 1954.

This is dated, I should say, August 20, 1954.

We have placed on our books 170 deals totaling \$182,822. They also maintain a satisfactory checking account with a balance running into five figures.

Very truly yours,

EDWARD J. SMITH,
Assistant Vice President, Roslyn National Bank.

All he is saying is that you have turned over to him that much FHA paper, is that right?

Mr. DORIS. Yes, but you do not stress the work we have done for the National City and the Manufacturers Trust Co.

Senator BUSH. You gave me this.

Mr. DORIS. Yes, showing the type of people that you are dealing with here.

Senator BUSH. These people are all buying this FHA paper because it is Government-guaranteed. That is no great commendation for the Permastica Corp.

Mr. DORIS. I mean as far as the work itself is concerned and the way they are trying to regulate their salesmen.

Senator BUSH. There is nothing in this letter at all about the work.

Mr. DORIS. There may not be in that but there is in other documents. Surely the National City Bank is not going to hire a concern that does improper work or makes false promises. In not a single instance has there been a complaint except by the staff editor of the New York News as to the type of work, and I was going to show, and I will show you this letter where that has been rectified, and then we got a letter of commendation.

Mr. SIMON. How can you say under oath that in not a single case except one that there have been no complaints?

Mr. DORIS. I have been informed—

Senator BUSH. Here is a letter from the Manufacturers Trust Co. that says they purchased 82 notes from your company "for a total of \$90,697 and of that total a further review of your file indicates that there were three service complaints registered with us and to our knowledge they have been corrected."

Mr. DORIS. That is right. Wherever we have had a complaint as to anything not being right we have corrected it.

Senator BUSH. I should hope you would or you wouldn't be in business.

Mr. DORIS. We have promptly made the repairs and done a good job.

Senator BUSH. We will be glad to receive any of this information. We would like to study it and we will be prepared then to resume this hearing with Mr. Cooper and these other two names that I mentioned on September 27 or immediately thereafter.

Mr. DORIS. May I submit again, Senator—and it will bear repetition—that if there are any other salesmen that you or counsel want to appear before you, let me have the names and it will not be necessary for the FBI or any other service agency to subpoena them. It affects the morale of the staff.

Mr. SIMON. Let me assure you that if the FBI are looking for your other salesmen it has no connection with this committee at all—it is some unrelated matter—because we have not asked the FBI to look for anybody on your staff. That is on another matter.

Mr. DORIS. I don't think it has that significance because they tell me the man represented himself as an FBI man.

Mr. SIMON. I can only assure you we have not asked the FBI to do anything in this matter, so that must be on some other matter.

Mr. DORIS. I don't know of anything else with which this company is involved.

Senator BUSH. We are not looking into anything else.

Mr. DORIS. We have given you copies of our income-tax reports for the last 2 years.

Senator BUSH. Now, counselor, I don't want to cut you short, but the committee has limited time this morning. We are very much obliged to you for coming in. We will see you at the end of September. Thank you, Mr. Cooper. That is all.

Senator BUSH. We have two more witnesses here.

Mrs. Helen Nicholson. Is Mrs. Nicholson here?

Will you come forward, please, and come up the steps here?

Will you kindly raise your right hand? Do you solemnly swear that the testimony you will give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF MRS. HELEN NICHOLSON, BROOKLYN, N. Y.

Mrs. NICHOLSON. I do.

Senator BUSH. Will you be seated, please?

Do you object to these photographers taking pictures?

Mrs. NICHOLSON. No.

Senator BUSH. I might say parenthetically here that these hearings are going to terminate in 15 or 20 minutes, and before we do I simply would like to say that the committee wishes to thank members of the press for the adequate and objective coverage which has been given to these proceedings this week.

From all that I have observed myself, and from what others have told me, I think that the coverage given by the press has been efficient and objective, and I think very helpful to the general public.

I also wish to thank my friends, the photographers, for their cooperation with our rulings and with the procedures which we have observed.

Now, Mrs. Nicholson, will you kindly give your name to the reporter there?

Mrs. NICHOLSON. I am Helen Nicholson, 867 68th Street, Brooklyn.

Mr. HOGUE. Mrs. Nicholson, you and your husband own your home?

Mrs. NICHOLSON. Yes.

Mr. HOGUE. Were you approached about October of 1952 by a salesman named Knapp, who sold you a job of application of Permatex, and some additional work?

Mrs. NICHOLSON. Yes.

Mr. HOGUE. Did that salesman show you a coupon book?

Mrs. NICHOLSON. Yes.

Mr. HOGUE. Did he explain that that coupon book would be returned to you in approximately 2 weeks?

Mrs. NICHOLSON. Yes.

Mr. HOGUE. And that for each sale in the vicinity which was a result of the work done on your house you would receive approximately \$15?

Mrs. NICHOLSON. That is right.

Mr. HOGUE. Can you tell me the name of the company the salesman represented?

Mrs. NICHOLSON. Permastica.

Mr. HOGUE. Do you know whether or not any work was done in the vicinity thereafter?

Mrs. NICHOLSON. No.

Mr. HOGUE. On other houses?

Mrs. NICHOLSON. No.

Mr. HOGUE. Did you ever actually receive any payment from the Permastica Co.?

Mrs. NICHOLSON. No.

Mr. HOGUE. Can you tell me whether the work that was done on your home was satisfactory?

Mrs. NICHOLSON. Very bad.

Mr. HOGUE. In what way?

Mrs. NICHOLSON. Well, there was no preparation. We have in the contract they are supposed to fill all the holes and cracks.

Mr. HOGUE. Is what you are saying that there was no calking done on the job?

Mrs. NICHOLSON. No calking.

Mr. HOGUE. What about the painting job, or the job itself, was the color red before that was put on?

Mrs. NICHOLSON. It was a red paint that had been applied before. Then they sprayed this gray matter——

Mr. HOGUE. Gray matter on top of that?

Mrs. NICHOLSON. Yes.

Mr. HOGUE. Can you see the red through the gray color?

Mrs. NICHOLSON. In places; yes. It is extremely unsmooth.

Mr. HOGUE. I understand that you reported this matter to the Permastica Co.?

Mrs. NICHOLSON. I did.

Mr. HOGUE. Who did you talk to on the telephone?

Mrs. NICHOLSON. Mr. Cooper.

Mr. HOGUE. What did Mr. Cooper have to say to you?

Mrs. NICHOLSON. I guess I was at fault with everything that was said. I was insulted greatly. That was the end of the day, anywhere between 4:30 and 5:30 in the afternoon.

Mr. HOGUE. Did he swear at you?

Mrs. NICHOLSON. Well, that I don't remember, but I was amazed over the friction that I had as far as complaining over the workmanship.

Mr. HOGUE. Did they ever take care of the job and fix it up at all for you?

Mrs. NICHOLSON. All told I guess they have been there about 5 or 6 times, working 2 and 3 hours at intervals. I am still not satisfied.

Mr. HOGUE. Was some of this work done while it was raining?

Mrs. NICHOLSON. Yes.

Mr. HOGUE. Can you still see the red color through the gray?

Mrs. NICHOLSON. In places we can still see it. It was guaranteed for 10 years. One of the main ideas about this wonderful formula they had is that it would never peel off. It shows the process of peeling.

Mr. HOGUE. Was the job done about November of 1952?

Mrs. NICHOLSON. Kept on going——

Mr. HOGUE. I mean the original work was done when, in the latter part of 1952; is that correct?

Mrs. NICHOLSON. Yes; October. They commenced it on the 13th of October, and—

Mr. HOGUE. Did you ultimately go to the FHA about this matter?

Mrs. NICHOLSON. I contacted the FHA on the 14th by phone.

Mr. HOGUE. They advised you as a result of your conversation with them not to make any further payments?

Mrs. NICHOLSON. That is right.

Mr. HOGUE. What has happened since then?

Mrs. NICHOLSON. Well, I can't recall if it was before Christmas or after Christmas, Mr. Froman rang our bell on a Saturday morning and just handed a subpoena to my husband.

Mr. HOGUE. In other words, you were sued?

Mrs. NICHOLSON. That is right.

Mr. HOGUE. And you retained a lawyer?

Mrs. NICHOLSON. That is right.

Mr. HOGUE. What did your lawyer advise you? Did he advise you that the expense of litigation didn't make it worthwhile for you to pursue the matter?

Mrs. NICHOLSON. Yes; considering our responsibilities as a homeowner and a man who has to hold a job, and support three children, we were unable to defend the suit.

Mr. HOGUE. Was the ultimate settlement that \$50 was knocked off the price of the job?

Mrs. NICHOLSON. Yes.

Mr. HOGUE. You paid your lawyer how much?

Mrs. NICHOLSON. \$35.

Mr. HOGUE. So you only effected a saving of \$15, and you still feel that the job is unsatisfactory?

Mrs. NICHOLSON. That is right.

Senator BUSH. Thank you very much. The committee appreciates your cooperation in coming down here this morning.

Senator BUSH. Now we have Mr. Christopher Audibert. Please come forward.

Will you raise your right hand, please? Do you solemnly swear that the testimony which you will give to this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. AUDIBERT. I do.

Senator BUSH. Give your name and address to the clerk.

Mr. AUDIBERT. Christopher Audibert, 1845 Phelan Place, Bronx.

TESTIMONY OF CHRISTOPHER AUDIBERT, BRONX, N. Y.

Mr. HOGUE. What is your present occupation, Mr. Audibert?

Mr. AUDIBERT. Superintendent of an apartment building.

Mr. HOGUE. And you and your family live in the apartment building?

Mr. AUDIBERT. That is right.

Mr. HOGUE. Where did you formerly live?

Mr. AUDIBERT. 9228 176th Street, Jamaica.

Mr. HOGUE. Are you a veteran, by any chance?

Mr. AUDIBERT. I am.

Mr. HOGUE. When you were living at your former home were you approached by a salesman representing Eastern Home Improvement Co.?

Mr. AUDIBERT. I was.

Mr. HOGUE. To do some work on your house?

Mr. AUDIBERT. That is right.

Mr. HOGUE. Can you tell us what happened?

Mr. AUDIBERT. He came in with a line of spiel that he wanted to use my home as a model, and he would bring other customers around and show the house to them to see what a wonderful job was done, with the intention of selling other jobs in the neighborhood or throughout Queens, using my house as a model.

On that basis I accepted the job with the understanding being that for every job, every party he brought around that accepted the contract I would receive \$50 from them.

In case I brought any customers to them people, to Eastern Home, I would receive a bonus of \$100.

Mr. HOGUE. Did you ever receive any bonus?

Mr. AUDIBERT. I received \$50 in cash that was handed to me the afternoon I signed the contract with them. That was supposed to be the first bonus.

Mr. HOGUE. How much was the amount of the contract?

Mr. AUDIBERT. \$1,240 was the original contract.

Mr. HOGUE. Was the work done?

Mr. AUDIBERT. The work was done. It was a period of about 10 to 12 days.

Mr. HOGUE. Did you find any deficiency in the work?

Mr. AUDIBERT. The calking was left undone. Later on, in the period of 2 or 3 months, the shingles started to curl at the edges, and at the present time they are cracking, and it will be a question of maybe a year or 2 when the job will have to be redone.

Mr. HOGUE. Do you know how much the job was worth?

Mr. AUDIBERT. I was told it was not worth over \$600, tops.

Mr. HOGUE. From whom did you get that?

Mr. AUDIBERT. I got this from a party trying to sell my building at the present time, by the name of Henry Fox. He is a real-estate agent.

Mr. HOGUE. Are you making the payments to the bank?

Mr. AUDIBERT. No; because of the default in the bonus payments by this concern, I have not been able to make payments to the bank. At the present time I am under a court summons to make payments to them.

Mr. HOGUE. Was it necessary for you to move from your home because of this?

Mr. AUDIBERT. That is right.

Mr. HOGUE. Because of the additional expense?

Mr. AUDIBERT. Yes, sir.

Mr. HOGUE. And you find it necessary now to put your house on the market for sale?

Mr. AUDIBERT. That is right.

Mr. HOGUE. Thank you very much, Mr. Audibert, for coming. We appreciate it.

Mr. SELLS. When the salesman made these representations as to how much commission you would receive, did he tell you about how much of the contract would be paid off out of those commissions?

Mr. AUDIBERT. He verbally agreed at least half of the contract would be taken care of by bonus commissions.

Mr. SELLS. In other words, he told you that even though your contract called for \$1,200 payment, you would get at least half of that back out of these bonus payments; is that right?

Mr. AUDIBERT. That is correct.

Mr. SELLS. And it was because you didn't get any of that that you were not able to make the payments on the note and subsequently had to give up your house; is that correct?

Mr. AUDIBERT. That is correct.

Mr. SELLS. That is all I have.

Senator BUSH. We thank you very much. We appreciate your cooperation with this committee, Mr. Audibert. We are very sorry that you find yourself in that very difficult position.

This will conclude the hearings of this committee in New York, and the committee will recess and resume hearings in Los Angeles at 10 o'clock next Tuesday morning. The committee will resume hearings in New York on September 27. That is Monday, September 27.

(Whereupon, at 12:15 p. m., the committee recessed to meet in Los Angeles, Calif., on August 31, 1954.)

FHA INVESTIGATION

TUESDAY, AUGUST 31, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Los Angeles, Calif.

The committee met, pursuant to recess, at 10 a. m., Tuesday, August 31, 1954, Senator Homer E. Capehart (chairman) presiding.

Present: Senator Capehart.

Also present: Senator Thomas E. Kuchel.

Also present: William Simon, General Counsel, and T. T. Kenney, Assistant General Counsel.

The CHAIRMAN. The committee will please come to order.

I would like to call the roll of our witnesses for today to make certain that they are present.

As I call your name, if you will hold up your hand or answer "present" we will appreciate it very much.

Dr. V. R. Mason.

A VOICE. The doctor has not yet arrived, sir.

The CHAIRMAN. Dr. Eaton M. MacKay?

Dr. MACKAY. Present.

The CHAIRMAN. Arthur Weber?

Mr. WEBER. Present.

The CHAIRMAN. Frances Anderson.

Miss ANDERSON. Present.

The CHAIRMAN. Horace Moses?

Mr. MOSES. Present.

The CHAIRMAN. John William Salmon?

(No response.)

The CHAIRMAN. Mr. Salmon is not present?

(No response.)

The CHAIRMAN. Maurice Henry Golden?

Mr. GOLDEN. Present.

The CHAIRMAN. Verne Elliott?

Mr. ELLIOTT. Here, sir.

The CHAIRMAN. Kenneth Mitchell?

(No response.)

The CHAIRMAN. Are you Dr. Mason?

Dr. MASON. Yes, sir.

The CHAIRMAN. Where is Kenneth Mitchell?

(No response.)

The CHAIRMAN. We may possibly carry over some of these witnesses whose names I just called until this afternoon.

This afternoon we will have Mr. Kenneth Kadow of Alaska and Mr. Staples of Las Vegas, Nev.

Our first witness this morning was to have been Mr. Diller, a builder here in Los Angeles. We understand that Mr. Diller is ill and that a couple of doctors are here to testify to his illness, and his inability to testify. The first of these doctors, I believe, is to be Dr. Eaton MacKay.

Will you please come forward, Dr. MacKay?

Will you please be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF DR. EATON M. MacKAY, BEVERLY HILLS, CALIF.

Dr. MacKay. I do.

The CHAIRMAN. Thank you, sir.

Will you please be seated?

Will you give your full name and address to the reporter, please?

Dr. MacKay. Eaton, E-a-t-o-n. My middle name is MacLeod, MacKay, 133 South Lasky, Beverly Hills.

The CHAIRMAN. Doctor, will you tell us why Mr. Diller could not appear this morning?

Dr. MacKay. Mr. Diller has been under the care of my office since early June 1953.

The CHAIRMAN. Since early June 1953?

Dr. MacKay. Yes. He has been under my personal care since last April. He was quite ill at that time, controlled with a rather large amount of medication. I have seen him at least once a month—usually twice a month since then. Early in August he came to see me primarily for the purpose of getting a supply of medication to extend over a 2- or 3-week trip he expected to make to Washington. I asked him about the reason for the trip. He told me he was going to testify at a committee meeting there. I strongly advised him not to make the trip unless he was compelled to do so. I knew it would be very bad for his physical and mental condition.

He chose not to take my advice and made the trip. I don't know exactly when he returned, but he came to see me immediately, or soon after his return, about the middle of last week, in very bad shape, and I told him he had to be hospitalized at once.

He brought up the question of this hearing this week, and that he felt he should testify, and I told him as far as I was concerned he would have to find another medical attendant if he chose to testify.

The CHAIRMAN. Are you the head of the Beverly Hills Clinic?

Dr. MacKay. I am not. I am a member of the staff of the Beverly Hills Clinic.

He agreed to be hospitalized, and then in view of this hearing I decided to get outside opinion to support my own. I chose one man from Beverly Hills Clinic as a consultant. He is not here. I chose Dr. Vern Mason, who is widely known in the area as the other consultant.

Mr. Diller's condition is such—I can go into details if you wish—that he is in no position to testify at any hearing at the present time, and I can only guess as to when he will be in such condition.

The CHAIRMAN. Would you say he would be able in 60 days?

Dr. MacKay. I would guess between 2 and 6 months.

The CHAIRMAN. Between 2 and 6 months?

Dr. MACKAY. But that is a guess.

The CHAIRMAN. He testified before us just 10 days ago in Washington.

Dr. MACKAY. And that is what has done a lot of it.

The CHAIRMAN. At that time he said nothing about feeling bad. In fact, he looked like a very capable and able witness. He showed no signs of being ill.

Dr. MACKAY. That was the damage. He showed plenty by the time he got back here. When he testified before you he was under extremely heavy medication—so heavy that I questioned he should have testified before you.

Mr. SIMON. Doctor, was it the trip to Washington that caused the problem, or the mental strain of testifying?

Dr. MACKAY. No. His present condition actually commenced—I mean the change of his condition—actually commenced early in May. It was aggravated greatly by the trip to Washington. Now, whether it was the trip or the testifying, I cannot say. I would guess it was the testifying, because he was East. He went to New York in May and that had no deleterious effect on him.

Mr. SIMON. He took a trip from California where in May?

Dr. MACKAY. To New York.

Mr. SIMON. That didn't bother him?

Dr. MACKAY. No.

Mr. SIMON. Does that make it a reasonable medical assumption that it wasn't the traveling from here to Washington that disturbed him, but the mental disturbance of the questions he was asked?

Dr. MACKAY. The mental disturbance did not cause his condition. It simply aggravated it.

Mr. SIMON. You said a moment ago that it would be deleterious to his physical and mental condition if he were to testify here at this time.

Dr. MACKAY. He is depressed at the present time.

Mr. SIMON. What did you have in mind when you referred to his mental condition?

Dr. MACKAY. He is depressed.

Mr. SIMON. He is upset about the questions we asked him?

Dr. MACKAY. He does not have a pathological depression as yet. He has an acute anxiety that has not yet progressed to an anxiety neurosis.

Mr. SIMON. That is all.

The CHAIRMAN. Will you wait just a moment?

Mr. SIMON. Where is Mr. Diller right now?

Dr. MACKAY. He is in St. John's Hospital in Santa Monica, that being the largest and most used hospital in Western Los Angeles.

Mr. SIMON. When did you see him last, Doctor?

Dr. MACKAY. I saw him last evening.

Mr. SIMON. When was the last time you saw him prior to that?

Dr. MACKAY. Yesterday morning.

The CHAIRMAN. Dr. Mason, will you please be sworn.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF DR. VERN R. MASON, BEVERLY HILLS, CALIF.

Dr. MASON. I do.

The CHAIRMAN. You heard what Dr. MacKay had to say and you generally agree with his statement?

Dr. MASON. Yes, sir.

The CHAIRMAN. When was the last time you saw Mr. Diller?

Dr. MASON. Sunday, the 29th of August.

The CHAIRMAN. You would say it would be maybe 2 to 6 months before he can testify?

Dr. MASON. Yes, sir.

The CHAIRMAN. Under the circumstances we dismiss you gentlemen. We appreciate very much your coming.

If there is no objection, we will place into the record the written statement you gave us and we will withdraw the subpoena we now have out for Mr. Diller, and when he gets feeling better we will possibly invite him to come to Washington for further testimony.

(The material referred to follows:)

THE BEVERLY HILLS CLINIC,
Beverly Hills, Calif., August 27, 1954.

To Whom It May Concern:

Mr. Richard S. Diller has been a patient of this office for more than a year and under my direct care for the past 6 months. He is suffering with a serious disease of his intestinal tract as well as an ulcer of his stomach. Under the best of circumstances it has required the strongest possible medication to control his symptoms. Recently there has been evidence of a hemorrhage from his stomach.

Mr. Diller will be in no condition to testify at any hearings during the next few months without serious permanent impairment to his health.

Very truly yours,

EATON M. MACKAY, M. D.

BEVERLY HILLS, CALIF., August 30, 1954.

To Whom It May Concern:

Mr. Richard Diller was examined by me August 29, 1954. This patient has an ulcer of the stomach and during the past has had many symptoms. Recently he states that he has had several dark bowel movements and probably has had some bleeding from the ulcer.

At the present time Mr. Diller has an agitated depression and it has been necessary to give him large doses of barbiturates so that he may sleep, and have some rest. He is markedly agitated, depressed, and cries at the least provocation and he also has a high degree of anxiety.

It is absolutely necessary that this patient be relieved of all of his business duties and that he rest for a period of several weeks.

Yours very truly,

VERNE R. MASON, M. D.

The CHAIRMAN. Thank you very much.

Dr. MACKAY. Thank you. I may add in the written statement since the patient was receiving the letter it was impossible for me to bring in the questioning.

The CHAIRMAN. I understand Mr. Diller's attorney is here. I don't think you have anything further to say?

Dr. MACKAY. Nothing further.

The CHAIRMAN. We will withdraw the subpoena of Mr. Diller in view of his condition as testified here this morning by these two doctors.

Our next witness will be Mr. Arthur Weber.

Mr. Weber, will you please come forward?

Mr. Weber, will you be sworn, please:

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF ARTHUR B. WEBER, WILSHIRE-LaCIENEGA APARTMENTS, LOS ANGELES, CALIF., ETC., ACCOMPANIED BY LOU EDELBERG, COUNSEL—Resumed

Mr. WEBER. I do.

The CHAIRMAN. If you will give your full name to the reporter, your address, and the gentleman with you, his name and address.

Mr. WEBER. Arthur B. Weber, 6338 Wilshire Boulevard, Los Angeles, and Mr. Lou Edelberg, my counsel.

The CHAIRMAN. Is Mr. Diller a partner of yours?

Mr. WEBER. He was 5 years ago.

The CHAIRMAN. But is not a partner today?

Mr. WEBER. No, Senator Capehart.

The CHAIRMAN. He was identified with you in a number of building projects?

Mr. WEBER. Yes. May I say a word, Senator Capehart?

The CHAIRMAN. Yes.

Mr. WEBER. I would just like to go on record once again, and thank you for the very courteous treatment I received in Washington from you and especially for your voluntarily having put into the record that I appeared in Washington at my own free will and paid my own expenses to cooperate with the committee.

The CHAIRMAN. That is right.

Mr. WEBER. I bring that up because this morning's paper had a statement attributed to you which I am sure is erroneous that you said I was hiding out.

The CHAIRMAN. Mr. Weber, we have been trying to locate you since we arrived in Los Angeles. We were unable to do so. We had people out to your home and your servants didn't know where you were, and when you would return.

Mr. WEBER. That is correct.

The CHAIRMAN. We had no choice excepting to appeal to you through the newspapers. Otherwise, our best judgment is you would not have been here today.

Mr. WEBER. I am very happy to come here at any time. When I left Washington I asked your counsel here——

The CHAIRMAN. Do you have a habit of leaving home and not telling your folks or your office or people you are closely associated with where you are at?

Mr. WEBER. Yes. I go away several times. I don't want to be contacted by the office at all. When I left Washington, Mr. Simon, I asked you whether or not I would be required to testify any further in Los Angeles, and you said to the best of your knowledge I wouldn't be so I wasn't contacted at all in Los Angeles, up until 4 or 5 days ago, and I went off on a trip of my own accord.

Mr. SIMON. You are completely right. When you finished testifying in Washington we had no thought of calling you again but the record should show, Mr. Weber, that you withheld from us the vital

information of your dealings with FHA employees that we intend to go into this morning.

The CHAIRMAN. Had you told us the full story——

Mr. WEBER. I answered all the questions.

The CHAIRMAN. And the full truth in Washington you would not be here today.

Mr. WEBER. I don't know what you are referring to, but I answered all questions you asked me at that time.

The CHAIRMAN. We will get to it in a minute. We want the record to show we did everything we could to contact you.

Mr. WEBER. I am sure I will get as courteous treatment today as I got in Washington.

One more request I have to make. I would prefer not to be on television. I have requested all of the photographers to take all of the pictures they want before I testified, and which I think they have already done.

The CHAIRMAN. Now, Mr. Weber, if you will make the request that you just made a moment ago, we will comply with it.

Mr. WEBER. I request that there be no television during my testimony and no photography. I accommodated all the photographers a few minutes ago. I am not very photogenic and I don't think I will get a moving-picture contract.

The CHAIRMAN. In other words, your request is there be no television and there be no photographs taken while you are testifying?

Mr. WEBER. No photographs.

The CHAIRMAN. Will the television, if there is any—I don't see any.

Mr. WEBER. He took a few of them. I want those taken out.

The CHAIRMAN. This committee has adopted a policy of complying with the wishes of witnesses with respect to photographs and television——

Mr. WEBER. Any of those you have taken I want deleted.

The CHAIRMAN. We will comply with your request.

You may proceed, Mr. Simon.

Mr. SIMON. Mr. Weber, how many section 608 projects were you interested in?

Mr. WEBER. Three.

Mr. SIMON. Will you give us the names of the projects?

Mr. WEBER. Baldwin Gardens.

Mr. SIMON. How do you spell that?

Mr. WEBER. B-a-l-d-w-i-n Gardens.

Mr. SIMON. Where is that located?

Mr. WEBER. Jefferson and Rodeo, Los Angeles.

Mr. SIMON. Jefferson and Rodeo Streets, Los Angeles?

Mr. WEBER. Yes, sir.

Mr. SIMON. Second one.

Mr. WEBER. Wilshire-LaCienega.

Mr. SIMON. Where is that located?

Mr. WEBER. LaCienega and Cadillac.

Mr. SIMON. What is the third one?

Mr. WEBER. The Monte Bello Gardens, I believe they call it Wilshire-Fairfax.

Mr. SIMON. How do you spell that?

Mr. WEBER. M-o-n-t-e B-e-l-l-o, I believe.

Mr. SIMON. Where is that located?

Mr. WEBER. Monte Bello, Calif.

Mr. SIMON. When were these projects built?

Mr. WEBER. The Baldwin Gardens and LaCienega I think were completed before the end of 1949. The Monte Bello before then, the exact date I couldn't recall.

Mr. SIMON. Did you know that the law under which these projects were built provided that the mortgage could not exceed 90 percent of the Commissioner's estimate of cost?

Mr. WEBER. I believe I testified to that in Washington. I have the transcript right here. Let me refer to the testimony.

Mr. SIMON. My question is whether you knew that, Mr. Weber.

Mr. WEBER. Let me see what I answered then, sir.

Mr. SIMON. My question is whether you knew that the law provided—

The CHAIRMAN. Mr. Weber, would your answer be different today than it was in Washington?

Mr. WEBER. No; it wouldn't be, but I would like to refresh my memory, Senator, if you don't mind.

Mr. SIMON. I am asking you without refreshing your memory whether you knew in 1948—

Mr. WEBER. No; I don't think I did know. I am not sure.

Mr. SIMON. You didn't know in 1948?

Mr. WEBER. I might have known there was some regulations to that effect, but I wasn't familiar with it. I think I stated that.

Mr. SIMON. Did you know that in 1947 Congress passed an amendment to the law, providing that the Commissioner's estimates of cost were to be as close as feasible to the actual costs of efficient builders?

Mr. WEBER. I don't think I would recall that.

Mr. SIMON. Did you know at the time?

Mr. WEBER. I don't think so.

Mr. SIMON. In Baldwin Gardens, what was the amount of the mortgage?

Mr. WEBER. Let me again refer to this. I can't give you amounts from memory, sir. This is 5 years ago. I assume I had given you all the information at that time. I had my files with me then.

Mr. SIMON. You not only didn't give us all the information at that time, you told us you had two section 608's.

Mr. WEBER. I forgot about this 80 units.

The CHAIRMAN. How much was the mortgage on the 80 units?

Mr. WEBER. I can't say for certain. I think it is \$350,000.

The CHAIRMAN. In other words, it is easy to forget a \$350,000 project?

Mr. WEBER. On the scale we operate, it could be.

Mr. SIMON. What was the mortgage on Baldwin Gardens?

Mr. WEBER. \$2,888,600. I am answering this from the transcript of the testimony in Washington, relying on its accuracy. I had the documents at the time which I presented to both of you at that time.

Mr. SIMON. Is your testimony today you don't know it and you are merely reading to us from the transcript?

Mr. WEBER. No, sir. Whatever is in here is the absolute truth.

Mr. SIMON. What was the amount of the mortgage on Baldwin Gardens?

Mr. WEBER. \$2,888,600.

Mr. SIMON. What was the cost of construction of the project?

Mr. WEBER. I haven't got that information. I wouldn't know, unless I get the records and books.

Mr. SIMON. Did you testify at Washington that the cost of the project, including the land and interest during construction, and taxes and everything else, was \$277,000 less than the mortgage?

Mr. WEBER. Let me see. I will see if I have.

Yes, I have the answer right here.

Mr. SIMON. Is that true?

Mr. WEBER. Your question "How much of the mortgage proceeds was left over in Baldwin Gardens after you had returned the loans and paid all construction costs?"—no, that is the amount left over. That isn't right. The amount left over, is that what you are asking now?

Mr. SIMON. No, I asked you the extent to which the mortgage exceeded all costs, including the lands.

Mr. WEBER. I have that, \$277,154.

Mr. SIMON. Let us make sure we understand what that means. When you finished building this building—you had paid for the land—

Mr. WEBER. Paid everything.

Mr. SIMON. You owned the building and you still had \$277,000 of the Government-insured mortgage money?

Mr. WEBER. That is correct.

Mr. SIMON. Now, on Wilshire-LaCienega, what was the amount of the mortgage?

Mr. WEBER. LaCienega was \$1,937,600.

Mr. SIMON. And how much was that in excess of all the costs, including the land and interest and everything else?

Mr. WEBER. \$110,389.

Mr. SIMON. What was the mortgage in Monte Bello Gardens?

Mr. WEBER. That I can't give you accurately. To the best of my knowledge, it was a little over \$500,000—about \$530,000, \$540,000—I could be off.

Mr. SIMON. How much did the mortgage exceed costs in that one?

Mr. WEBER. I have no information on that. I would be glad to get the records for you.

Mr. SIMON. Mr. Diller testified under oath that the costs were \$30,000 to \$35,000 less than the mortgage.

Mr. WEBER. If he testified to that I am sure that was correct.

Mr. SIMON. If my addition is correct, then, Mr. Weber, you had roughly \$5 million of Government-guaranteed mortgage money to build these buildings, and when you got through you and your partners owned the buildings; you had none of your own money in there, and you had \$417,000 of the mortgage money that you were able to take home with you; is that correct?

Mr. WEBER. I think that is substantially correct.

Mr. SIMON. Who were your partners in these projects?

Mr. WEBER. In the Baldwin Gardens, they were Richard S. Diller and Irving L. Kalsman.

Mr. SIMON. You had a real estate firm or building firm, then, did you, of Weber, Diller, and Kalsman?

Mr. WEBER. I think Baldwin Gardens was a corporation formed called Baldwin Gardens Corp.

Mr. SIMON. But at that time were you and Diller and Kalsman in partnership in the building business?

Mr. WEBER. We were.

Mr. SIMON. Who were the partners in Wilshire-LaCienega?

Mr. WEBER. Richard S. Diller, Herman Kranz, and myself.

Mr. SIMON. Who were the partners in Monte Bello Gardens?

Mr. WEBER. Mr. Diller, myself, a fellow by the name of Bush and a fellow by the name of Harrington. They, too, had the lands at the time and proposed the deal to us.

Mr. SIMON. The biggest of these windfalls was in Baldwin Gardens where the excess of mortgage money over cost was 10 percent; is that right?

Mr. WEBER. I haven't figured it out on a percentage basis, but it is \$277,154.

Mr. SIMON. And the mortgage was \$2,800,000?

Mr. WEBER. That is right. It was under 10.

Mr. SIMON. It would be about 9.99 percent?

Mr. WEBER. Something like that.

Mr. SIMON. Whether you know it or not—if you will take my word for it—the law did provide that the mortgage could not be more than 90 percent of the estimated cost, which meant that the cost was to be 10 percent over the mortgage, and in this case the cost was 10 percent under the mortgage.

Mr. WEBER. We had nothing to do with setting the amount of the commitment on the loan. The FHA did that, their estimating department.

Mr. SIMON. The valuating department.

Mr. WEBER. Valuating or some department.

Mr. SIMON. You got a copy of the project analysis, didn't you?

Mr. WEBER. A copy?

Mr. SIMON. Yes.

Mr. WEBER. We got a copy?

Mr. SIMON. Yes.

Mr. WEBER. Maybe our office did. I didn't.

Mr. SIMON. I show you a copy of the FHA project analysis.

Mr. WEBER. I think I presented that to you in Washington.

Mr. SIMON. You did not present it to us but you undoubtedly had a copy of it. Is that a copy of the FHA project analysis for the Baldwin Gardens job?

Mr. WEBER. It looks like it.

Mr. SIMON. Will you tell me who the valuator was who made this 20 percent mistake or overvalued it by 20 percent?

Mr. WEBER. I thought you said 10 percent.

Mr. SIMON. The cost was supposed to be 10 percent over the mortgage. It turned out to be 10 percent under the mortgage, and 10 and 10 are 20.

The CHAIRMAN. It is supposed to be 90 percent of 100, and it is 110 percent. That is 20 percent. That is a 20-percent error.

Mr. WEBER. I can't read the initials, but the last name is Chrit-tenden.

Mr. SIMON. The valuator?

Mr. WEBER. Chrittenden.

Mr. SIMON. May I see it?

Mr. WEBER. Certainly.

I don't know the man.

Mr. SIMON. Who is the chief valuator who signed this?

Mr. WEBER. The chief valuator, initials, J. W. Salmon.

Mr. SIMON. John William Salmon?

Mr. WEBER. That is right.

Mr. SIMON. Have you ever had any business dealings with John William Salmon?

Mr. WEBER. With FHA, about 10, 12, 15 years.

Mr. SIMON. Have you ever had any personal business dealings with him at all?

Mr. WEBER. None at all, except he purchased one of our houses in one of our tracts called Beverly Wood.

Mr. SIMON. How much did he pay for the house?

Mr. WEBER. \$10,000.

Mr. SIMON. How much did the man next door pay for a house just like it?

Mr. WEBER. I wouldn't know. I would have to get the records.

Mr. SIMON. Do you know whether the man next door paid \$15,500?

Mr. WEBER. He could have.

Mr. SIMON. The man next door bought the house on July 26, 1949; Mr. Salmon bought the house next door on October 31, 1949.

Mr. WEBER. He could have.

Mr. SIMON. One paid \$10,000 and one paid \$15,500.

Mr. WEBER. Yes.

Would you like an explanation for that?

Mr. SIMON. Yes, sir.

Mr. WEBER. That lot was a hazard lot. It wouldn't clear flood control. It wouldn't be approved for Federal Housing. It was a lot that we would normally have to scrap.

Mr. SIMON. Weren't there two lots in that shape?

Mr. WEBER. There might have been two. I don't remember that one. Anyway—

Mr. SIMON. Just a moment.

Mr. WEBER. There were 13 more on the other side of the creek that we never built on, subject to flood control.

Mr. SIMON. Weren't there two lots you did build on that were subject to flood control?

Mr. WEBER. Possibly two, possibly more. I don't remember. The point out there wasn't available for anything. We couldn't sell it or get approval on it. And on our cost on our books, the total cost for house and lot was \$11,100, which brought our lot cost down to approximately \$2,500. If we got \$10,000 for that house our house cost was \$8,500. Whatever we got above \$8,500 we salvaged, and I figure we picked up \$1,500.

The CHAIRMAN. Why did you sell—

Mr. WEBER. On what could be a worthless lot.

The CHAIRMAN. Why was No. 1 sold at \$10,000 and next door sold at \$15,000?

Mr. WEBER. If that lot was approved for flood control in Federal Housing, in addition I understand Mr. Salmon lost 16½ feet of his lot in a storm.

Mr. SIMON. I think you will find both lots in the other tract were in the same condition, so far as flood-control condition.

Mr. WEBER. Maybe. I couldn't testify as to that.

Mr. SIMON. And the two identical lots—one man paid \$15,500 and the other man \$10,000.

Mr. WEBER. That was possibly all it was worth at the time.

The CHAIRMAN. In other words, why would you sell the chief valuator for FHA, the man who evaluated this project, on which you made some \$200,000 above the mortgage proceeds—why would you sell him a house for \$5,500 less than you did his neighbor?

Mr. WEBER. He being the chief valuator, possibly he would know more than the layman buyer and said that was all it was worth, and all he would pay for it. We were salvaging \$1,500 out of a worthless lot, and apparently thought it was worthwhile.

Mr. SIMON. Mr. Weber, you had here a total of 160 houses that you built; is that right?

Mr. WEBER. Approximately that.

Mr. SIMON. And 158 of them were built on what you call tract 15192; is that right?

Mr. WEBER. I couldn't remember the tract. Whatever you have there is correct.

Mr. SIMON. 158 of them. They were all on good land, so to speak; is that right?

Mr. WEBER. Very likely.

Mr. SIMON. Then you have two of them on a separate tract that you called or your books referred to as tract 13945. Now, going to the tract—to the 158 houses that were on the so-called good lands—there was one of them that you called lot No. 156, and you sold that for \$11,400 to another FHA man named Mitchell; is that right?

Mr. WEBER. I think so.

Mr. SIMON. There was nothing wrong with that land, was there?

Mr. WEBER. Not to my knowledge.

Mr. SIMON. The house next door on one side, which was lot 155, you sold for \$16,300; is that right?

Mr. WEBER. I wouldn't know. You have the figures there. You will also find we sold 2 others on 2 good lots for \$11,000 to 2 strange parties, too.

Mr. SIMON. That was at the end when you were having difficulty. Not in the same period of time.

Mr. WEBER. I don't know when. You will find during that entire period of time we were having difficulties. We couldn't sell it at the regular FHA terms. We started to sell on sales contracts.

Mr. SIMON. Just a moment, Mr. Weber. Let us stick to the record here.

Mr. WEBER. All right.

Mr. SIMON. The record is that in June of 1949 you sold Mitchell a house, No. 156, for \$11,400; is that right?

Mr. WEBER. If the record says that, that must be right.

Mr. SIMON. Four months earlier you sold the house next door to him on one side for \$16,300; 2 months later, on August 11, 1949, you sold the house on the other side at \$16,600. You sold the house beyond him on the other side for \$15,250. You sold the house on the other

side beyond him for \$15,950. The next one for \$15,950, the next one for \$16,250.

In the same months Mitchell paid \$5,000 less for his house than his neighbors on either side, and then we get this separate tract, where there were 2 pieces—2 lots—that apparently aren't quite as good, and sold for a little less, and again the FHA man pays \$5,000 less than his neighbors.

Mr. WEBER. Maybe one of the lots didn't have as much hazard from flood.

Mr. SIMON. Do you know?

Mr. WEBER. No; I don't know. I do know that that particular lot that Mr. Salmon took, as I testified a minute ago, he lost 16 feet off the back of his lot. I don't think the other one that was sold for \$15,500 lost any of it.

The CHAIRMAN. Let us talk about the one that you sold to Mitchell for \$11,400. That was next door to a house you sold for \$16,600 on one side and on the other side \$16,300. That is a difference of \$5,000. Why did you sell the FHA employee, Mr. Mitchell, a house for \$5,000 less than you sold his two neighbors?

Mr. WEBER. To the best of my knowledge—and this is only from my memory—that was an experimental job on a slab, the only one we built on the tract, and slab jobs as a rule are not very popular out here. We built a lot of them but they are in the lower brackets—possibly \$8,000, \$9,000, or \$10,000. That was the only slab job in the tract.

The CHAIRMAN. Are you testifying that is the case in this instance? Was this a slab house?

Mr. WEBER. Definitely.

Mr. SIMON. It is the only slab house in the tract?

Mr. WEBER. The only one in the tract.

The CHAIRMAN. Then you did know about this house when you sat down a minute ago to testify? You seemed surprised we were talking about it?

Mr. WEBER. I did know about the house.

The CHAIRMAN. Yes.

Mr. WEBER. I know we had a slab job in that tract.

Mr. SIMON. Does that make \$5,000 difference in the value of the house?

Mr. WEBER. It could. People don't pay that price as a rule for slab jobs. That is in the lower brackets.

Mr. SIMON. Is it your testimony, Mr. Weber, that Mitchell's house is worth \$5,000 less than the house on either side of him?

Mr. WEBER. I wouldn't say it is worth \$5,000 less, but it is an experimental job.

The CHAIRMAN. How much did it cost less to build?

Mr. WEBER. I couldn't recall unless I referred to the books.

The CHAIRMAN. About how much?

Mr. WEBER. I wouldn't know.

Mr. SIMON. A couple of hundred dollars?

Mr. WEBER. I wouldn't make a guess. I am under oath. I would produce any figures you want.

The CHAIRMAN. I think we will send someone to the house to take photographs.

Mr. SIMON. Mr. Weber, is it closer to \$200 in cost or \$5,000?

Mr. WEBER. I wouldn't know the figures, Mr. Simon. This is 5 years ago you are talking about. I built thousands of houses since then.

Mr. SIMON. You do know, don't you, the difference in cost couldn't have been more than a couple of hundred dollars?

Mr. WEBER. I do not know that.

Mr. SIMON. What is your best recollection?

Mr. WEBER. I couldn't give you any estimate at all on what the difference in cost would be. It might have been 2, 3, 4 thousand dollars.

Mr. SIMON. Was it \$10,000 difference?

Mr. WEBER. I wouldn't know that.

Mr. SIMON. It might be \$10,000 difference?

Mr. WEBER. I wouldn't say that.

Mr. SIMON. Could it be \$9,000 difference?

Mr. WEBER. We are not going to get down to figures, Mr. Simon, because I can't give you that from memory. This is 5 years ago. I will be glad to get the records for you.

Mr. SIMON. How long have you been in the building business?

Mr. WEBER. Thirty-four years.

Mr. SIMON. You can't tell us what the difference in cost is?

Mr. WEBER. It would depend on a lot of factors.

Mr. SIMON. What factors?

Mr. WEBER. I think that house has a low-pitched roof, a lot of lower-priced features to it than the ordinary job.

Mr. SIMON. Mr. Weber, isn't it a fact that other than the two houses in the flood land, all these houses were built to sell for the same, substantially the same price?

Mr. WEBER. What price?

Mr. SIMON. Substantially the same price?

Mr. WEBER. They were, but we sold others as low as \$11,000 outside of these two.

Mr. SIMON. You built them to sell at the same price?

Mr. WEBER. We did, around \$14,500.

Mr. SIMON. You got \$16,500.

Mr. WEBER. For some of them.

Mr. SIMON. How much did the houses cost you to build?

Mr. WEBER. \$11,100, including lot.

Mr. SIMON. What did the land cost?

Mr. WEBER. I can't tell you exactly. I think the land cost approximately \$200,000, without the improvements. I think the approximate cost of the lot—and this is from memory—ran \$22.50 to \$200, cost of improved lot.

The CHAIRMAN. During this period, Mr. Diller was a partner of yours?

Mr. WEBER. Yes.

The CHAIRMAN. Of course we expected to ask him about this matter. He became ill.

Mr. WEBER. Had I known you were going to ask these questions I would have been glad to have the books and figures here.

The CHAIRMAN. I think you are doing all right.

Mr. WEBER. Thank you.

Mr. SIMON. Mr. Weber, did you ever pay any moneys to any members of the Salmon family?

Mr. WEBER. I personally did not.

Mr. SIMON. Isn't it a fact that in 1947 you paid Mrs. Salmon \$1,200, supposedly for being a rental agent for some property?

Mr. WEBER. The Monte Bello project hired Mrs. Salmon, who was a licensed broker as a rental agency and the company paid her, I believe, the customary fee, which is \$50 an apartment to rent. That is the only knowledge I have of any time that Mrs. Salmon did anything for our company during the entire time that I knew them.

Mr. SIMON. Was that \$1,200 she got paid out of this Monte Bello project?

Mr. WEBER. I don't know what the amount was. I think it was so much per apartment. I would have to get that from the figures, too.

Mr. SIMON. If she testified it was \$1,200 would you dispute that?

Mr. WEBER. No.

Mr. SIMON. She did so testify.

Mr. WEBER. That must be the fact.

Mr. SIMON. That is Monte Bello Gardens you testified earlier was another section 608 approved by FHA?

Mr. WEBER. That is correct.

Mr. SIMON. Did you have any connection with the \$3,000 that Mr. Diller paid her in April of this year?

Mr. WEBER. I haven't any connection at all with Mr. Diller in 5 years.

Mr. SIMON. You had nothing to do with this \$3,000?

Mr. WEBER. I don't even know about it.

Mr. SIMON. In 1953 Mr. Diller's firm collected \$5,700 for Mrs. Salmon. Did you contribute to that \$5,700 fund?

Mr. WEBER. I did not. I wasn't solicited. I would have been glad to had I been.

Mr. SIMON. But you weren't solicited?

Mr. WEBER. That is right.

The CHAIRMAN. You are certain you made no contribution to that fund?

Mr. WEBER. Definitely.

The CHAIRMAN. You do know of your own knowledge that Mr. Diller did collect the \$5,700?

Mr. WEBER. I do not know of my own knowledge.

As I stated before, I haven't been associated with Mr. Diller for 5 years.

The CHAIRMAN. At this point we will read the transcript where Mr. Diller admitted that he collected this \$5,700. Then we will place in the record the names of those builders in Los Angeles that contributed to this fund, as given to us by the attorney for Mr. and Mrs. Salmon.

Mr. WEBER. May I ask, Senator, am I on that list?

Mr. SIMON. Diller and Kalsman are, and I take it you were no longer their partner in 1953?

Mr. WEBER. I haven't been their partner since the end of 1949.

The CHAIRMAN. Your testimony is you did not make a contribution?

Mr. WEBER. To the best of my knowledge, I did not. You don't find me on the list, do you, Senator?

The CHAIRMAN. I don't see your name here. I do have the names here of some 13 builders that did contribute to that fund.

Did you know about the fund?

Mr. WEBER. I heard about it after it was all collected.

The CHAIRMAN. You think it is perfectly legitimate and ethical for you, an FHA builder, to contribute to FHA employees?

Mr. WEBER. From my understanding, Senator Capehart, I understood that Mrs. Salmon had contracted cancer, and some of the builders instigated a fund to take care of her medical and hospital funds, and in that event if I had been solicited—and I don't know how I was left out—I would have been most happy to have contributed. I think it would have been a worthwhile cause, because we do that for strangers all the time in our office, and all offices.

Mr. SIMON. How many employees do you have?

Mr. WEBER. Office, about five.

Mr. SIMON. No, construction employees.

Mr. WEBER. I wouldn't know. I would say possibly 15 to 20. We subcontract most of our work. They are key employees.

Mr. SIMON (reading):

Question. Mr. Diller, do you have an interest in the Baldwin Gardens Co. at Beverly Hills?

Mr. DILLER. Yes, sir. Incidentally, may I ask for a copy of the transcript so I may correct any of it?

Question. Yes.

Mr. DILLER. Yes. I am one of the principal sponsors of that project, sir.

Question. Who are the other stockholders?

Mr. DILLER. The other stockholders were, when we built them, Arthur Weber, who had a third interest, and Irving L. Kalsman, one-third interest of the stock, and myself.

Question. Do you have figures there which reflect the actual cost of construction to Baldwin Gardens?

Mr. DILLER. Yes, I do have.

The actual cost of the construction, total project cost, including land, was \$2,589,245.10.

Question. That includes both the cost of the land, the cost of constructing the building and does it also include the FHA fees and your interim charges?

Mr. DILLER. It includes interest, etc., and FHA mortgage insurance and examination fee, inspection fee, and so forth, yes, but I do not know whether it includes advance deposits and other such things that are necessary. I don't believe it does. It was approximately a certain amount of money.

Question. Your advance deposits would have come back to you as you progressed with the construction; is that right?

Mr. DILLER. It does not exactly come back. They are used up.

Question. That is what I mean.

Mr. DILLER. Yes. They are used up.

Question. So that the amount of the mortgage in excess of the total cost—

Mr. DILLER. I have it exactly here. The difference between the mortgage and the total project cost was \$277,154.90.

Question. Have there been any distributions by Baldwin Gardens?

Mr. DILLER. Yes, there has been this amount withdrawn.

Question. What was the other project?

Mr. DILLER. Wilshire La Cienega Gardens.

Question. How do you spell that?

Mr. DILLER. It is a Spanish name, L-a C-i-e-n-e-g-a Gardens Co.

Question. Who were the stockholders in that, the same three stockholders in La Cienega Gardens?

Mr. DILLER. No. The original—there were four stockholders. I own a third of the stock, and Mr. Weber owned the other third, and Mr. Herman Kranz owned a sixth, I believe.

Question. Is that K-r-a-n-z?

Dr. DILLER. K-r-a-n-z—and a gentleman by the name of David Salot who owned one-sixth.

Now, the reason—well, that is the way it started out and subsequently, during construction, he sold out—David Salot sold out his sixth, which was incidentally offered to us for the same amount of \$25,000, and we later realized how

foolish we were not to buy it. We should have really bought it, but we had no way of knowing the job would turn out so well.

Question. To whom did he sell out?

Mr. DILLER. To Herman Kranz.

Question. So he owns one-third from then on?

Mr. DILLER. One-third, and then he later subsequently bought a sixth, to one a half at this time.

Question. Did he buy his sixth from you and Mr. Weber?

Mr. DILLER. No. He bought his sixth from Mr. Weber, and my children's trust bought a sixth.

Question. From Weber?

Mr. DILLER. From Weber, yes.

Question. How much was the guaranteed mortgage?

Mr. DILLER. The guaranteed mortgage on that, amount of the loan, \$1,937,600.

Question. Was the building here constructed by a contracting company or by Wilshire La Cienega?

Mr. DILLER. Wilshire La Cienega.

Question. Had Mr. Weber been in the construction business for some time?

Mr. DILLER. Mr. Weber was in for 35 years. Myself, I was in since 1933, I believe.

Question. What about Mr. Kranz and Mr. Salot?

Mr. DILLER. Well, Mr. Kranz was an associate of mine who made investments with me from time to time, when I needed money, et cetera.

Question. What was the total cost of the project, including the land?

Mr. DILLER. I have that for you. Total project cost, \$1,827,210.08, making a difference between the mortgage and the total project cost of \$110,389.92.

Question. And that includes all of the costs, such as the FHA application fees, interest during construction, et cetera?

Mr. DILLER. Yes.

Question. Have you any interest in any other section 608's than the two we have covered?

Mr. DILLER. Have I now?

Question. Have you had any interest as a sponsor in any others?

Mr. DILLER. Yes; one which was built sometime I think either 1947 or 1948, which we sold. It was a small one. I think it was 10 8-unit buildings. There were 4 associates in that one—Weber, myself had each a quarter and there was 2 others. One who was a superintendent of mine, who put up one-fourth of the money and another gentleman, and we since sold them, about 3 or 4 years ago—I don't remember.

Question. Do you recall whether you were able to construct that building for less than the mortgage money?

Mr. DILLER. I think there was some, but not very much, possibly \$30,000 or \$35,000. I think there was approximately—I am quoting from memory—there was approximately \$550,000 mortgage and there was some little money left over, not too much.

Question. What about Mr. Salmon? Did you offer a house to him?

Mr. DILLER. No; I think he expressed an interest in the fact that he would like to live in this subdivision.

Question. Do you recall when he expressed that interest? At what stage of the development?

Mr. DILLER. I really couldn't remember that. I would like to, but how could I?

Question. You don't know whether it was at the time your application was filed, at the time construction started?

Mr. DILLER. Well, if my memory serves me right, I can only go back, it would seem to me sometime during construction is the only thing I can recall.

Question. You do not recall the precise price?

Mr. DILLER. No. I do not remember what price we sold it. I would like to have my—I could get all the information for you and refresh myself with much of the information by looking at our records.

Question. Mr. Diller, this house you sold to John Salmon, what did it cost you to build?

Mr. DILLER. Sir; I don't have the books here. I don't recall now. I was thinking for a while, I recall that his lot was not an approved lot because of a flood-control hazard, and we had written off the lot to zero in our minds, and whatever we could get for the house, we thought was a good, fair price.

Question. When did you write the lot off?

Mr. DILLER. We didn't write it off of the books but when a lot of that type does not have a flood-control report favorable, we realize that after building it, that it would have to be disclosed, I don't know whether we built that house for cash or whether we had some small loan, but the loans we were able to get on that were not very good and would have to be disclosed.

Question. When did you learn that the lot was not approved for flood control?

Mr. DILLER. I think we knew about that at the time, possibly—I don't recall now, but I wouldn't know exactly any dates at this time. I would have to have my books and records, sir.

Question. Did you know about it when you built the house?

Mr. DILLER. I am pretty sure we did.

Question. Before you built the house?

Mr. DILLER. Yes.

Mr. SIMON. So if you had thought building a house on that land would have been a loss, you wouldn't have built the house?

Mr. DILLER. We would have a lot left over. We wouldn't have built on it.

Question. Unless you thought you would be able to sell the house for at least as much as it cost you, you wouldn't have built it?

Mr. DILLER. That is right.

Question. Were all the houses substantially alike?

Mr. DILLER. Well, there wasn't too much difference, I would say, pretty much alike.

Question. What did you sell the houses for?

Mr. DILLER. Oh, around \$16,000, possibly \$15,000, \$14,000—ranging downwards. I don't remember; some of the later sales were getting pretty rough.

Question. thought you told me before \$16,000 was the average.

Mr. DILLER. It may have been to start with, but I don't think—I think it might have been a little less. Our books would reflect the exact prices, sir. We would be very glad to check over the records. I don't recall. Maybe \$15,000.

Question. Would you do that and give us a statement of what each of those houses sold for?

Mr. DILLER. It so happens an investigator from Los Angeles has those books. He made a request, and I don't have them.

Question. Your books are in the possession of an investigator?

Mr. DILLER. Yes.

Question. Investigator for whom?

Mr. DILLER. I thought it was your investigator. I don't know.

I might say parenthetically, Senator, it was not our investigator, it was someone from FHA.

Question. It didn't cost any less to build than the other houses, did it?

Mr. DILLER. Well, the house itself probably not, but I think the value of the lot cannot be really added.

Question. In other words, you would say—

Mr. DILLER. The house and the lot must be valued at a lesser price.

Question. The house itself was the same value as the other houses but the lot was a lesser value; is that right?

Mr. DILLER. Yes. The lot had questionable value.

Question. Mitchell's house you sold before it was constructed?

Mr. DILLER. I don't know. I think it was during the time of completion you mean.

Question. Prior to the time it was completed, Mitchell's house was sold; is that right?

Mr. DILLER. Yes, prior to the time it was completed.

Mr. SIMON. Was Salmon's house sold prior to the time it was completed?

Mr. DILLER. Yes, it was. I am pretty sure. I really can't be positive, but I am reasonably sure.

Question. Do you ever sell a house for less than it is going to cost you, even before you have completed it?

Mr. DILLER. Well, it all depends on the condition of the house and what the times are and the difficulty in selling them, and so forth.

Question. You can't tell if you are going to have a difficult time in selling a house if it isn't even finished yet, can you?

Mr. DILLER. Well, it all depends at the time, when we enter negotiations. During that period of time houses were difficult to sell. We may have taken what we could have. I don't know.

Question. When did you first talk to Salmon about building this house for him or selling him this house?

Mr. DILLER. I don't have any recollection. I couldn't tell you.

Question. Did he come to you or did you go to him?

Mr. DILLER. He may have met me at the job and talked to me about it.

Question. Did he suggest buying a house or did you suggest selling him one?

Mr. DILLER. I think it was that he expressed an interest that he would like to own a house.

Question. Tell me as best you can recall what he said.

Mr. DILLER. Well, he told me that he had been living in another area, and this would be a good area to live in. It would be more convenient for his daughter, and I said, "I will see what we can do, discuss it with Mr. Weber," and I think we talked to him and told him, "You can have this price for such-and-such a house," or something like that. I don't really recall too much about the transaction. It is pretty difficult to go back and to really know what happened.

Question. How much did you pay for the land?

Mr. DILLER. I wouldn't know, sir. I have bought an awful lot of land.

Question. You had how many houses there?

Mr. DILLER. We had, I think, about 175. I am not sure exactly, but in that neighborhood.

Question. What did the tract cost you?

Mr. DILLER. Do you mean to tell me that I could remember a figure what I paid for the land?

Question. Did you buy it in one tract?

Mr. DILLER. I built thousands of homes. I don't even know that. It might have been 1 or 2 parcels put together. My records would indicate to me all of this.

Question. Do you think you paid as much as \$1,000 a lot for the tract when you bought it?

Mr. DILLER. Well, I don't really know. I have books, sir. I am sure these books may have been returned by this time.

Question. Have you ever made any loans to any FHA employee?

Mr. DILLER. No.

Question. Have you ever given any gifts to any FHA employees?

Mr. DILLER. Yes. Ordinarily we have given them liquor, merchandise, baskets, things like that.

Mr. SIMON. Excluding gifts of value of less than \$25, have you ever given any gifts to any FHA employees?

Mr. DILLER. I don't believe to my knowledge.

Question. What do you mean by the "don't believe"?

Mr. DILLER. For quite a few years I haven't been handling that but I don't think that our organization gave any gifts of anything more than that, at any time.

Question. What is the reservation that you have?

Mr. DILLER. Well, when I say I don't believe we ever gave any gifts amounting to more than that at any time.

Question. Why do you say you don't believe rather than say you didn't do it? You must have a mental reservation.

Mr. DILLER. Well, put it this way: Maybe I don't recall ever doing that.

Question. Wouldn't you know if substantial gifts were made by your company?

Mr. DILLER. I would know; yes. I don't think that that was ever the case.

Question. There must be some reason why you say it wasn't the case. You said a minute ago there were no loans made and you said that without equivocation.

Mr. DILLER. Yes.

Question. Now you say here you just don't think so. What I am trying to find out is why you say one thing unequivocally and the other thing you can't go further than to say you don't think so.

Mr. DILLER. Well, to the best of my knowledge, I am sure we didn't give any more than \$25, if that answers you.

Question. Mr. Diller, why do you insist on making a reservation? I don't want you to testify falsely but I want to know why—

Mr. DILLER. I don't ever recall anything like that.

Question. When I asked you if you had made any loans, you said that unequivocally.

Mr. DILLER. Because we don't make loans hardly to anybody. That is not part of our business.

Question. Is it part of your business to make gifts?

Mr. DILLER. Yes.

Mr. SIMON. It is?

Mr. DILLER. During Christmastime we give away many thousands of dollars of gifts to all various different people we do business with. We don't know. We do maybe 15 or 20 million dollars worth of business a year.

Question. Supposing I raise that minimum from \$25 to \$50. Would that make any difference to you?

Mr. DILLER. Yes, it might. I think it would.

Question. Have you made any gifts of the value of \$50 or more?

Mr. DILLER. I am testifying under oath.

Question. That is right.

Mr. DILLER. Well, I wouldn't recall at this time. You know you can't recall everything that you have done in your lifetime, but I don't really think so, I think that is a pretty high figure.

Question. Have you made any gifts to the present or former FHA employees of the value of \$100 or more?

Mr. DILLER. That I am positively certain that it never was.

Question. A hundred dollars you are positive; is that right?

Mr. DILLER. Yes, I am positive; not over a hundred. That I would say without any question of a doubt.

Question. Have you ever paid any money, made any loans, or made any gifts to members of the family of FHA employees?

Mr. DILLER. No, no.

Question. You are positive of that?

Mr. DILLER. To the best of my knowledge I would say "No."

Question. But you are not positive?

Mr. DILLER. Yes, oh, yes. Just a minute. Let me recall. Gee, I am sure we did now. There was a case of a hospital fund.

Question. Golden Hospital Fund?

Mr. DILLER. Yes, Murray Golden hospital fund. About some 30 or 40 builders contributed an equal amount of money.

Question. How much?

Mr. DILLER. I don't remember exactly what the amount was. Our amount was approximately \$500 or \$1,000, and then there was another one, Tress Salmon.

Question. Let's get this Murray Golden first. What was that money for?

Mr. DILLER. She had a daughter who had leukemia. They were trying to save the daughter. They hired specialists and did everything and kept her alive. We all contributed a certain amount of money. What that amount was, I don't recall, or when it was. It might have been 5 or 6 years ago. I don't recall. She ultimately died, the child, but he was an FHA employee, but it was given to his wife.

Question. Why did you give it to the wife instead of giving it to him?

Mr. DILLER. I think that is the way it was set up.

Question. Why?

Mr. DILLER. I didn't set it up, sir.

Question. What is the other one?

Mr. DILLER. The other one was Tress Salmon hospital fund, if I recall. That was a case where—let me see—she had cancer, I think, and a number of builders contributed a certain amount of money. We gave what the average builder gave there. I have forgotten how much it was. It might have been \$500; it might have been more. I don't remember when it was, but we builders all pitched in and gave money.

Question. That was after she had been operated on; wasn't it?

Mr. DILLER. I wouldn't know when that happened, when she got that fund, etc. I don't remember.

Mr. SIMON. Didn't your firm initiate raising that money?

Mr. DILLER. Our firm did initiate in raising that money. We give a lot of money for charity a year.

Question. What are the other cases in which you contributed money to individuals?

Mr. DILLER. Well, I really don't recall now.

Question. How many times has your company ever contributed any money to an individual other than the two you have mentioned?

Mr. DILLER. I think through the company's books, I think those probably were the only two.

Question. Now, there must be what, 10 or 12 million people in California?

Mr. DILLER. Yes.

Question. How does it happen that the only two people that your companies have ever contributed to are former FHA employees?

Mr. DILLER. Well, I don't know, but all I can say, there is about 40 or 50 others that thought that they were deserving of it, and they all gave.

Question. Yes, but I am talking about your company at the moment.

Mr. DILLER. We are very happy to help out any needy cause.

Mr. SIMON. You are. Are these the only two needy causes that have been in California in the last 10 years, everybody else not in need?

Mr. DILLER. Well, I will tell you. Knowing that these people—if I could have saved the child's life who died of leukemia, I would have paid all the moneys that was raised, personally.

Question. I have no doubt about it and I would like to see a child saved as much as anybody, but what I am interested in is, I assume there must be thousands of needy cases in California every year and how your company picks on only the families of two FHA employees for that purpose.

Mr. DILLER. Well, as I say, I think it is a very worthwhile effort.

Question. Of course it is worthwhile, but the fact a man is so desperately in need makes him even more in debt to you when he gets money in a case like that, doesn't it?

Mr. DILLER. He doesn't get all the money from me. The money was raised.

Question. From the builders. They were all builders?

Mr. DILLER. Yes.

Question. I don't want to labor the point, Mr. Diller, but if you can give me any explanation, I would be grateful to know how all the thousands of needy cases there must have been in California, you pick only these two cases to contribute.

Mr. DILLER. Well, you mustn't forget one thing. We associate generally with people of our financial level, and the people that we know are really not such needy cases. Now, when you do some business with people that you hear about, some of these things here, that you know of, you like to help them out.

Question. Mr. Diller, how many workmen do you employ?

Mr. DILLER. I don't know; at various times it could be 500; it could be more or less. I really don't know how many.

Question. Have any of those workmen ever had sick wives or children?

Mr. DILLER. I presume so. I don't even know most of them.

Question. Have you ever heard of a needy case among your workmen?

Mr. DILLER. Doesn't come to me.

Question. You have never heard of one?

Mr. DILLER. Well, I don't believe that they ever—I don't know much about their status and their families and their problems, etc.

Question. How do you happen to know about the status and problems of the FHA employees?

Mr. DILLER. Well, maybe I didn't know. It is possible that my associate—I say I knew at the time, but maybe it got so I learned later, through him, or something of that sort, but I knew that our office was sponsoring the collections of those funds. I knew that these people didn't have the money.

Question. As you sit here today can you think of a single instance other than the four we have mentioned in which you had any business dealings with an FHA employee, or any member of his family?

Mr. DILLER. I may have. I just don't recall now. I would like to have an opportunity to examine my records and we will advise you. We will be very happy to give you all the information, by checking our records.

I do not recall any right now unless I have my records and I will be very happy to give them to you. I think I may have. I would like to check my records. I may have—I very likely could have done some business with some, or had some relationship with some other FHA employee, but I do not recall at this moment, but whatever I have done, I am sure is part of our records.

Question. When can you have this information available?

Mr. DILLER. I can get it for you within a week, I think, or 2 weeks. I will get my CPA, we will go over all our records and I am sure we can have for you a pretty up-to-date statement.

Question. I have a subpoena here for you, Mr. Diller, for Thursday, September 1, at 10 o'clock, in the California State Building in Los Angeles.

Mr. DILLER. O. K. I will have all the information for you at that time, sir.

The CHAIRMAN. We will excuse you for the moment, Mr. Weber. If you will please stand by we may want you later.

Our next witness will be Frances Anderson.

Will you be sworn, please: Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF MISS FRANCES ANDERSON, BALDWIN GARDENS,
LOS ANGELES, CALIF., ACCOMPANIED BY HENRY ATTIAS AND
ARTHUR GOLDMAN, COUNSEL**

Miss ANDERSON. Yes.

The CHAIRMAN. The gentleman with you is——

Miss ANDERSON. Henry Attias.

The CHAIRMAN. You are an attorney representing Miss Anderson?

Mr. ATTIAS. That is right.

The CHAIRMAN. And this gentleman?

Mr. ATTIAS. Arthur Goldman.

The CHAIRMAN. You are likewise an attorney representing Miss Anderson?

Mr. GOLDMAN. Yes.

Mr. SIMON. Would you give the reporter your full name and address, please?

Miss ANDERSON. Frances Anderson.

Mr. SIMON. Your address?

Miss ANDERSON. 8549 Wilshire Boulevard, Beverly Hills.

Mr. SIMON. You are a bookkeeper for the Diller-Kalsman Co.?

Miss ANDERSON. Well, sort of in charge of the office.

Mr. SIMON. You are in charge of the office?

Miss ANDERSON. Yes.

Mr. SIMON. I show you a document consisting of three typewritten pages, and excluding the pencil marks which we have put on, and ask you if you prepared that document?

Miss ANDERSON. I prepared it, but I didn't type it.

Mr. SIMON. Is the information in there accurate?

Miss ANDERSON. The sales prices are accurate, without a doubt, but the dates, there may be some question. They are only posting reference dates.

Mr. SIMON. It gives the date the deposit was made; is that right?

Miss ANDERSON. The date the deposit went into the books, which I didn't keep the books.

Mr. SIMON. That would generally be pretty close to the time of sale, would it?

Miss ANDERSON. Well sometimes they are held for a week or so before they go in.

Mr. SIMON. But within a couple of weeks would it be accurate?

Miss ANDERSON. I would say so; yes.

Mr. SIMON. If you will turn to page 3, there is a lot near the end, 156, I believe.

Miss ANDERSON. Yes.

Mr. SIMON. Is that the house that was sold to Mr. Mitchell?

Miss ANDERSON. I believe so.

Mr. SIMON. What was the price of that house?

MISS ANDERSON. It says \$11,400.

MR. SIMON. Is that correct?

MISS ANDERSON. It is on the books.

MR. SIMON. That is what the books show as the price that he received?

MISS ANDERSON. Yes.

MR. SIMON. Do you know whether those houses were all built to sell at approximately the same price?

MISS ANDERSON. I wasn't with him at the time he built these houses.

MR. SIMON. Do you know whether the books show they were built to sell at approximately the same price?

MISS ANDERSON. It doesn't show what they were built to sell for. It just says what they were eventually sold for.

MR. SIMON. Do the books show the cost of those houses?

MISS ANDERSON. Not for each house. The entire set of books is there. It could be figured, I suppose.

MR. SIMON. Is there any way to figure what the cost was for each house, or did they treat them all as one group?

MISS ANDERSON. One group.

MR. SIMON. They didn't distinguish between the houses?

MISS ANDERSON. No, not that I know of.

MR. SIMON. So there would be no way of indicating or finding from the books what the cost of a precise house was?

MISS ANDERSON. No.

MR. SIMON. Is there anything in the books to indicate that any one house was intended to be substantially different than the other houses?

MISS ANDERSON. I don't know.

MR. SIMON. Did you tell our people yesterday that you understood they were all built to sell at approximately the same price?

MISS ANDERSON. No, I didn't.

MR. SIMON. You didn't?

MISS ANDERSON. No.

MR. SIMON. There is another one marked there, "No. 1," at the bottom. Was that a separate tract?

MISS ANDERSON. It is a separate tract number.

MR. SIMON. Is that a separate group of two houses?

MISS ANDERSON. It looks like it.

MR. SIMON. Do you know?

MISS ANDERSON. I don't know because I wasn't here at that time. I wasn't working for them at that time. It is a separate tract number. It probably abutts the other tract, I would imagine.

MR. SIMON. You don't know whether it is separated by an alley from the other tract?

MISS ANDERSON. No, I don't know. I couldn't find the plot map for these two houses.

MR. SIMON. One of the houses in the second tract was sold to Mr. Salmon?

MISS ANDERSON. Yes.

MR. SIMON. How much was the price for his house?

MISS ANDERSON. Lot one?

MR. SIMON. Yes.

Miss ANDERSON. Ten thousand.

Mr. SIMON. And what was the price of the other house in that tract?

Miss ANDERSON. Fifteen thousand five hundred dollars.

Mr. SIMON. Those were the only two houses in that tract; is that right?

Miss ANDERSON. That is right.

Mr. SIMON. Going back to the Mitchell house, what was the sales price of the house on either side of it?

Miss ANDERSON. 155 is \$16,300 and 157 is \$16,600.

Mr. SIMON. Are those the two houses on either side of Mr. Mitchell?

Miss ANDERSON. I would have to look at the plot map to see.

Mr. SIMON. Do you know whether they are?

Miss ANDERSON. I didn't check.

Mr. SIMON. Do you know whether the houses are numbered consecutively?

Miss ANDERSON. They are numbered consecutively but they may go around corners and not be next to each other or go across the street and start in again.

Mr. SIMON. Then if you will give us the second house on either side of them.

Miss ANDERSON. Lot 145 is \$15,950; lot 158 is \$15,250.

Mr. SIMON. Are those four houses adjacent to Mitchell's house whether across the street or not?

Miss ANDERSON. I would assume they are in the same area, being numbered tracts.

The CHAIRMAN. The numbers are consecutive, are they not?

Miss ANDERSON. Yes. They can go across the street or around corners.

The CHAIRMAN. Thank you very much.

Without objection, we will now place into the record this document showing the sales price of the house to Mitchell for \$11,400, while the houses on both sides sold for \$16,300 and \$16,600, and the sale to Salmon for \$10,000, whereas the house next door was sold for \$15,500.

(The information referred to follows:)

Tract 15192

Lot No.	Sales price	Date of deposit	Date of closing (approximate)	Lot No.	Sales price	Date of deposit	Date of closing (approximate)
1.....	\$11,300	Jan. 1, 1949	Jan. 11, 1950	23.....	\$14,500	Nov. 21, 1949	Nov. 21, 1949
2.....	15,450	Oct. 24, 1949	Dec. 1, 1949	24.....	15,950	July 25, 1949	Sept. 30, 1949
3.....	15,450	Oct. 26, 1949	Oct. 26, 1949	25.....	15,250	Oct. 16, 1949	Oct. 20, 1949
4.....	15,750	Jan. 1, 1950	Jan. 1, 1950	26.....	12,675	Sept. 28, 1949	Nov. 31, 1949
5.....	15,950	May 10, 1949	Jan. 11, 1950	27.....	16,100	Dec. 29, 1949	Dec. 28, 1950
6.....	14,350	Sept. 30, 1949	Do.	28.....	15,950	Apr. 12, 1949	Sept. 8, 1949
7.....	15,950	Nov. 8, 1949	Nov. 9, 1950	29.....	16,300	July 23, 1949	Sept. 15, 1949
8.....	15,950	July 25, 1949	Oct. 30, 1950	30.....	15,500	Apr. 25, 1949	Dec. 28, 1949
9.....	15,950	Sept. 13, 1949	Sept. 15, 1949	31.....	15,750	Apr. 22, 1949	Do.
10.....	15,450	Oct. 20, 1949	Sept. 30, 1949	32.....	16,100	May 20, 1949	Sept. 13, 1949
11.....	15,000	Sept. 10, 1949	Sept. 10, 1949	33.....	15,750	Sept. 7, 1949	Sept. 30, 1949
12.....	15,950	June 3, 1949	Jan. 10, 1950	34.....	15,750	Sept. 14, 1949	Sept. 15, 1949
13.....	16,300	Apr. 15, 1949	Sept. 21, 1949	35.....	15,950	Aug. 19, 1949	Sept. 2, 1949
14.....	15,950	Apr. 19, 1949	Jan. 2, 1950	36.....	14,675	Oct. 6, 1949	Jan. 10, 1950
15.....	15,950	Apr. 11, 1949	Sept. 10, 1949	37.....	15,750	July 29, 1949	Sept. 2, 1949
16.....	16,300	Mar. 4, 1949	Sept. 21, 1949	38.....	14,175	Dec. 18, 1949	Mar. 8, 1950
17.....	15,950	Jan. 31, 1949	Do.	39.....	14,450	Jan. 25, 1950	Mar. 12, 1950
18.....	10,300	Apr. 26, 1949	Sept. 13, 1949	40.....	14,300	Jan. 15, 1950	Feb. 16, 1950
19.....	15,950	Aug. 1, 1949	Sept. 1, 1949	41.....	14,500	Jan. 25, 1950	Feb. 1, 1950
20.....	15,950	Feb. 8, 1949	Sept. 14, 1949	42.....	13,500	Mar. 12, 1950	Mar. 15, 1950
21.....	14,350	Dec. 10, 1949	Jan. 10, 1950	43.....	13,950	Jan. 12, 1950	Mar. 12, 1950
22.....	15,950	Aug. 15, 1949	Sept. 30, 1949	44.....	13,950	Nov. 29, 1949	Jan. 11, 1950

Tract 15192—Continued

Lot No.	Sales price	Date of deposit	Date of closing (approximate)	Lot No.	Sales price	Date of deposit	Date of closing (approximate)
45	\$15,550	May 1, 1949	Sept. 21, 1949	102	\$15,750	Mar. 15, 1949	Sept. 30, 1949
46	13,500	Feb. 22, 1950	(¹)	103	14,175	Nov. 14, 1949	Jan. 11, 1950
47	14,500	Jan. 25, 1950	Feb. 1, 1950	104	15,750	Sept. 14, 1949	Dec. 12, 1949
48	15,750	Apr. 25, 1949	Sept. 10, 1949	105	15,750	Sept. 27, 1949	Sept. 30, 1949
49	15,750	Sept. 20, 1949	Sept. 30, 1949	106	15,750	Apr. 5, 1949	Sept. 28, 1949
50	15,250	Mar. 22, 1949	Sept. 13, 1949	107	15,950	Feb. 22, 1949	Sept. 21, 1949
51	11,000	Mar. 8, 1949	Mar. 15, 1949	108	15,950	Feb. 8, 1949	Dec. 23, 1949
52	12,000	Feb. 6, 1950	Mar. 12, 1950	109	15,500	Mar. 30, 1949	Sept. 12, 1949
53	15,500	Sept. 6, 1949	Dec. 1, 1949	110	15,500	June 10, 1949	June 15, 1949
54	13,950	Jan. 30, 1950	Feb. 6, 1950	111	15,500	Aug. 1, 1949	Sept. 30, 1949
55	11,000	Mar. 8, 1950	Mar. 15, 1950	112	13,000	Mar. 3, 1949	Mar. 15, 1949
56	14,500	Jan. 25, 1950	Jan. 26, 1950	113	15,500	July 11, 1949	Sept. 30, 1949
57	14,000	Jan. 12, 1950	Do.	114	15,500	Feb. 14, 1949	Sept. 8, 1949
58	13,950	Nov. 9, 1949	Jan. 11, 1950	115	14,500	Nov. 8, 1949	Nov. 14, 1949
59	13,950	Dec. 15, 1949	Feb. 16, 1950	116	13,950	Nov. 21, 1949	Jan. 11, 1950
60	14,500	Jan. 10, 1950	Jan. 21, 1950	117	13,500	Feb. 6, 1949	Mar. 12, 1949
61	15,500	Aug. 29, 1949	Sept. 26, 1949	118	14,500	Dec. 12, 1949	Dec. 21, 1949
62	14,500	Nov. 8, 1949	Nov. 24, 1949	119	13,500	Feb. 7, 1950	(¹)
63	14,175	Jan. 18, 1950	Mar. 18, 1950	120	14,000	Dec. 17, 1949	Dec. 17, 1949
64	15,750	Sept. 26, 1949	Dec. 31, 1949	121	14,500	Sept. 20, 1949	Sept. 30, 1949
65	14,175	Dec. 28, 1949	Jan. 16, 1950	122	14,500	Nov. 8, 1949	Dec. 21, 1949
66	15,750	Sept. 12, 1949	Sept. 30, 1949	123	15,750	Apr. 11, 1949	Jan. 11, 1950
67	15,750	Oct. 16, 1949	Oct. 20, 1949	124	15,500	Aug. 1, 1949	Dec. 12, 1949
68	14,900	Oct. 17, 1949	Dec. 30, 1949	125	15,500	Aug. 30, 1949	Sept. 1, 1949
69	14,175	Nov. 8, 1949	Jan. 11, 1950	126	15,500	July 26, 1949	Sept. 30, 1949
70	15,500	Oct. 10, 1949	Nov. 30, 1949	127	15,500	Oct. 6, 1949	Oct. 23, 1949
71	15,500	Nov. 14, 1949	Nov. 21, 1949	128	14,000	Aug. 15, 1949	Jan. 11, 1950
72	13,500	Feb. 13, 1950	Feb. 13, 1950	129	15,500	July 29, 1949	Aug. 2, 1949
73	15,750	Feb. 22, 1949	Jan. 10, 1950	130	15,500	Aug. 11, 1949	Oct. 31, 1949
74	15,900	July 1, 1949	Dec. 30, 1950	131	15,950	Aug. 3, 1949	Sept. 1, 1949
75	15,750	Mar. 7, 1949	Aug. 25, 1949	132	15,950	Apr. 18, 1949	Sept. 28, 1949
76	16,100	July 11, 1949	Sept. 28, 1949	133	14,500	Nov. 14, 1949	Jan. 11, 1950
77	13,400	Feb. 6, 1950	Mar. 27, 1950	134	15,950	Nov. 5, 1949	June 1, 1950
78	15,000	Sept. 15, 1949	Sept. 15, 1949	135	16,300	Mar. 28, 1949	Sept. 8, 1949
79	14,175	Nov. 21, 1949	Jan. 25, 1950	136	15,950	Mar. 25, 1949	Sept. 13, 1949
80	14,175	Nov. 24, 1949	Jan. 11, 1950	137	15,950	Nov. 8, 1949	Aug. 8, 1950
81	15,750	Aug. 3, 1949	Aug. 15, 1949	138	15,950	Nov. 12, 1949	Sept. 12, 1949
82	15,750	July 25, 1949	Sept. 30, 1949	139	15,950	Jan. 15, 1949	Sept. 13, 1949
83	16,250	Aug. 2, 1949	Aug. 17, 1949	140	15,950	Jan. 18, 1949	Aug. 2, 1949
84	14,500	Oct. 20, 1949	Oct. 20, 1949	141	16,250	Nov. 5, 1949	Sept. 8, 1949
85	14,175	Nov. 24, 1949	Jan. 11, 1950	142	16,950	do.	Sept. 7, 1949
86	15,750	Feb. 14, 1949	Jan. 10, 1950	143	16,750	Mar. 23, 1949	Nov. 3, 1949
87	14,500	Oct. 5, 1949	Dec. 12, 1949	144	16,950	Sept. 6, 1949	Jan. 10, 1950
88	11,100	Aug. 22, 1949	Nov. 16, 1949	145	16,250	Nov. 9, 1948	Sept. 8, 1949
89	16,150	Aug. 16, 1949	Sept. 16, 1949	146	15,950	Nov. 10, 1948	Sept. 7, 1949
90	14,500	Oct. 6, 1949	Oct. 10, 1949	147	15,950	do.	July 31, 1949
91	14,175	Oct. 18, 1949	Jan. 9, 1950	148	15,950	Nov. 8, 1948	Sept. 7, 1949
92	13,750	Oct. 16, 1949	Dec. 20, 1949	149	15,950	Mar. 7, 1949	Do.
93	15,750	Feb. 22, 1949	Sept. 8, 1949	150	15,950	Feb. 1, 1949	Do.
94	13,000	Feb. 6, 1950	(¹)	151	16,300	Mar. 28, 1949	Do.
95	15,750	Jan. 20, 1949	Sept. 28, 1949	152	16,250	Aug. 1, 1949	Sept. 1, 1949
96	14,500	Jan. 11, 1950	Jan. 25, 1950	153	15,950	May 5, 1949	Sept. 27, 1949
97	15,750	Feb. 9, 1949	Jan. 10, 1950	154	15,950	Nov. 8, 1948	Sept. 21, 1949
98	14,500	Oct. 5, 1949	Dec. 28, 1949	155	16,300	Feb. 22, 1949	Sept. 28, 1949
99	14,250	Dec. 12, 1949	Feb. 16, 1950	156	² 11,400	June 6, 1949	Jan. 11, 1950
100	14,500	Dec. 20, 1949	Dec. 21, 1949	157	16,600	Aug. 11, 1949	Dec. 7, 1949
101	15,750	Feb. 7, 1949	Sept. 21, 1949	158	15,250	July 8, 1949	Dec. 22, 1949

¹ No information.
² Mitchell.

Tract 13945

Lot No.	Sales price	Date of deposit	Date of closing (approximate)
1	¹ \$10,000	Oct. 31, 1949	Dec. 6, 1949
2	15,500	July 26, 1949	Oct. 20, 1949

¹ Salmon.

Mr. GOLDMAN. Is the witness now excused, Senator?
 The CHAIRMAN. Yes.
 Thank you very much.
 We are going to change our program a little bit and call Mr. Elliot from Portland, Oreg. He has to catch a plane.

Will you be sworn.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ELLIOT. Yes, sir.

TESTIMONY OF CHARLES ELLIOT, SAN FRANCISCO, CALIF.

Mr. SIMON. Mr. Elliot, will you give your name and address to the reporter?

Mr. ELLIOT. My name is Charles Elliot. I live in San Francisco, Calif. I am down here on subpena.

Mr. SIMON. Were you formerly the assistant State director of Oregon for FHA?

Mr. ELLIOT. That is correct, Mr. Simon.

Mr. SIMON. During what period of time were you the assistant Oregon State director of FHA?

Mr. ELLIOT. From 1946 to 1949, I believe; I began work in the fall of 1946.

Mr. SIMON. What was your salary as assistant State director of Oregon?

Mr. ELLIOT. I believe it began at about \$5,200, and I was increased two or three hundred during the time I was with the Government.

Mr. SIMON. Do you know Herbert R. Kettel?

Mr. ELLIOT. Yes, sir; quite well.

Mr. SIMON. What is his business?

Mr. ELLIOT. He is a building contractor.

Mr. SIMON. Is he a large Oregon building contractor?

Mr. ELLIOT. Well, actually, I don't know the size of his enterprise. I think he is a substantial man, financially.

Mr. SIMON. Is he a substantial builder in Oregon, too?

Mr. ELLIOT. Yes; he has done a considerable amount of building.

The CHAIRMAN. He builds under FHA titles?

Mr. ELLIOT. Yes, he does, Senator Capehart.

Mr. SIMON. Mr. Elliot, I understand you are also a lawyer?

Mr. ELLIOT. That is correct.

Mr. SIMON. During the time you were assistant State director for FHA in Oregon, did you receive fees for legal work for Mr. Kettel?

Mr. ELLIOT. I received fees that were paid to an associate of mine in Oregon. I didn't receive any money directly from Mr. Kettel.

Mr. SIMON. Was that for work you did?

Mr. ELLIOT. That was for work that I contributed greatly to, yes.

Mr. SIMON. Did you personally receive the money?

Mr. ELLIOT. I ultimately received it from my associate.

Mr. SIMON. What was the work you did for Mr. Kettel?

Mr. ELLIOT. Of a legal nature.

Mr. SIMON. Was it reviewing contracts?

Mr. ELLIOT. Yes. A great part of it was reviewing contracts; yes, sir.

Mr. SIMON. By that you mean somebody else would draw the contract and he would bring it in to you to look over?

Mr. ELLIOT. I testified to that, Mr. Simon. I can hardly define those contracts. I believe I told you yesterday, and the Senator, that those contracts generally were subcontracts on projects that were

being constructed by Mr. Kettel through FHA but I am not certain of that. I couldn't identify those contracts, even at the time.

Mr. SIMON. If I remember correctly your testimony yesterday was that he presented to you for your legal review contracts between himself and subcontractors?

Mr. ELLIOT. That is correct.

Mr. SIMON. That related largely to FHA projects?

Mr. ELLIOT. That I can't testify as to whether they related to those projects or not. I mean there would be no way actually for me to identify the contract with a particular subcontractor on any job that Mr. Kettel did.

Mr. SIMON. And you received, I believe, something like \$3,000 or \$3,500 from Mr. Kettel while you were assistant State director?

Mr. ELLIOT. That was a period—over the period of 3 years.

Mr. SIMON. But during the 3-year period you were assistant State director?

Mr. ELLIOT. Yes, that is an estimate. I think that is substantially correct. I also can't verify. That has been some time ago.

Mr. SIMON. Roughly, \$3,000 to \$3,500?

Mr. ELLIOT. Yes. I would think \$3,500 would be very close to it.

Mr. SIMON. During all that period of time, of course, he had applications pending before FHA?

Mr. ELLIOT. I couldn't say as to that. I don't know.

The CHAIRMAN. Weren't you the assistant State director?

Mr. ELLIOT. Yes, sir.

The CHAIRMAN. What were your duties?

Mr. ELLIOT. My duties were entirely administrative, Senator.

The CHAIRMAN. You were the second topman in the State, were you not?

Mr. ELLIOT. Yes, sir.

The CHAIRMAN. You ran the place when the State director was not present; did you not?

Mr. ELLIOT. Well, if you could call it that, yes. I had nothing to do with underwriting the loans. I want that on the record, Senator, if you please. I had nothing at all to do with the loans; nothing.

Mr. SIMON. Except the people who physically processed the loans were subordinate to you; weren't they?

Mr. ELLIOT. No, sir. I was not senior to the underwriters in the office.

Mr. SIMON. You were assistant State director, weren't you?

Mr. ELLIOT. That is correct.

Mr. SIMON. Did you also receive a brokerage fee on a sale of some land?

Mr. ELLIOT. Some real estate; yes, sir.

Mr. SIMON. And who sold that land to who?

Mr. ELLIOT. The land was purchased by a corporation, a syndicate in the Northwest. I don't recall the stockholders, all of them, now. In fact, I think I never knew at the time.

Mr. SIMON. Didn't you testify yesterday that you received a \$4,000 commission on the sale of this land?

Mr. ELLIOT. I think it was something a little less than \$4,000, Mr. Simon.

Mr. SIMON. And a section 608 project was built on the land by the purchaser?

Mr. ELLIOT. No, sir. A section 608 project was not built on that property. It was a title II project.

Mr. SIMON. A title II project, but an FHA project was built on the land after these buyers bought it, and they paid you a little less than \$4,000 in connection with the purchase?

Mr. ELLIOT. That is correct. They paid me a 4-percent commission on the sale.

Mr. SIMON. The sale was \$96,000?

Mr. ELLIOT. To the best of my recollection; yes, sir.

Mr. SIMON. So it would be between \$3,900 and \$4,000?

Mr. ELLIOT. If the price was \$96,000, yes. I can't exactly say. I believe it was something less than \$100,000.

Mr. SIMON. You told us \$96,000 yesterday, didn't you?

Mr. ELLIOT. I don't want you to hold me to \$96,000. It might have been \$95,500.

The CHAIRMAN. In any event, it was between \$90,000 and \$100,000?

Mr. ELLIOT. That is right.

Mr. SIMON. You received between \$2,800 and \$4,000?

Mr. ELLIOT. That is right. Whatever the price was I got about 4 percent, and I think it was about \$4,000.

Mr. SIMON. You knew, of course, there was an FHA regulation that prohibited FHA employees from having these outside activities?

Mr. ELLIOT. There was a regulation that prohibited outside activity without permission.

Mr. SIMON. Yes. Did you ever write a letter to the FHA officials asking for such permission?

Mr. ELLIOT. I think very shortly after I went to work for FHA I wrote such a letter.

Mr. SIMON. Who did you write the letter to?

Mr. ELLIOT. I presume it would go to the Commissioner of the Federal Housing Administration.

Mr. SIMON. Did you ever receive a reply?

Mr. ELLIOT. I did not see a written reply; no, sir. I was told, if I may use the hearsay expression, I was told that the request had been denied.

Mr. SIMON. You told us yesterday the Zone Commissioner told you that Washington had denied your request?

Mr. ELLIOT. Yes, sir.

Mr. SIMON. To engage in these outside activities; is that right?

Mr. ELLIOT. By outside activities, it was simply that I wanted to carry on a private law practice.

Mr. SIMON. And FHA said you couldn't do it; is that right?

Mr. ELLIOT. That is what the Zone Commissioner told me; yes, sir.

Mr. SIMON. Then later, as I understand it, Walter Greene was out in Oregon, and you had some private conversation with him, and he said it was all right?

Mr. ELLIOT. No; I didn't have a private conversation with him, Mr. Simon. I am quite certain that I wrote a second request, and was a little more explicit, explained in a little more detail what I wanted to do, and it is my best recollection that Mr. Walter Greene came out—

The CHAIRMAN. Who is Mr. Greene?

Mr. ELLIOT. Mr. Greene was one of the officials in Washington. I don't know who he was.

The CHAIRMAN. He was the top official; was he not?

Mr. ELLIOT. No, sir.

The CHAIRMAN. Was he the Deputy Commissioner?

Mr. ELLIOT. I believe he was close to the top, Senator.

The CHAIRMAN. Yes. He was the Deputy Commissioner.

Mr. ELLIOT. I think Mr. Frank Richards was the top man.

The CHAIRMAN. Mr. Greene was his assistant?

Mr. ELLIOT. Yes.

Mr. SIMON. Greene became Commissioner when Richards left.

The CHAIRMAN. That is right. He later became the top man.

Mr. ELLIOT. I was not with FHA at that time, Senator.

Mr. SIMON. Mr. Elliot, are you familiar with chapter VII of the FHA Handbook for employees?

Mr. ELLIOT. I am sorry, Mr. Simon, I am not. I possibly was familiar with it at one time, but I couldn't recall at all now.

Mr. SIMON. At any rate, during this 3-year period you were assistant State director you received somewhere between \$7,300 and \$7,500 on these 2 transactions, 1 with Kettel and the other where there was a sale of land on which a title II project was built; is that right?

Mr. ELLIOT. That is correct. I want to qualify that in this way and have you understand this:

At the time that the land was sold, in which—the transaction in which I received a commission, I don't like to permit an innuendo there. I didn't know at that time that these people intended to build FHA houses on this land. I didn't know that. They told me they intended to build houses on it, but the fact they were going to build through FHA, I didn't know that.

Mr. SIMON. Mr. Elliot—

Mr. ELLIOT. It might have been something else.

Mr. SIMON. I take it there are a lot of lawyers in Portland?

Mr. ELLIOT. There are a lot of lawyers; yes, sir.

Mr. SIMON. And with all the lawyers in Portland if Mr. Kettel had some contracts he wanted a lawyer to look over, and he was doing a substantial amount of business with FHA, why was it that he had to go to the assistant State director of FHA to have him look over his contracts?

Mr. ELLIOT. Well, Mr. Simon, I am pleased to answer that. He didn't go to me. He went to an associate of mine, and Mr. Kettel at no time ever brought these contracts directly to me. I never received any papers from Mr. Kettel to examine.

Mr. SIMON. He gave them to the other fellow?

Mr. ELLIOT. Yes.

Mr. SIMON. The other fellow gave them to you to look over?

Mr. ELLIOT. That is right. When the contracts were terminated, when the arrangement, as far as—

The CHAIRMAN. Mr. Kettel knew you were looking them over?

Mr. ELLIOT. Well, I think he has testified that he did not, but I am certain that he did.

Mr. SIMON. And—

Mr. ELLIOT. I am certain he knew I was doing the work.

Mr. SIMON. He knew you were getting the money, didn't he?

Mr. ELLIOT. I can't answer that. I presume he did. I can hardly see how he would fail to know.

The CHAIRMAN. You testified yesterday in executive session that you traveled over the State to make speeches, in selling FHA to the people of the State of Oregon?

Mr. ELLIOT. Yes, sir.

The CHAIRMAN. Just tell us as briefly as you can what you said, and how you were selling FHA to the people? What kind of promotion were you doing?

Mr. ELLIOT. Washington had invited all the field officers—

The CHAIRMAN. What year was this?

Mr. ELLIOT. I believe that was 1947 or 1948.

The CHAIRMAN. Tell us what you did in this promotional trip.

Mr. ELLIOT. Well, Washington had established a policy whereby they were inviting people in the construction business to build homes that would be available in a low-price bracket. By that I mean, to the best of my recollection, now, I believe seven to eight thousand dollars, and the builders were quite reluctant to build that house, because they couldn't find much profit in those small houses, so it was my task—and I was assigned that by my senior in Portland—to go out and make these talks and try to induce these builders to go into these small home construction programs.

The CHAIRMAN. Is it your understanding that the FHA in 1947 were doing that all over the United States?

Mr. ELLIOT. That was my understanding, Senator; yes.

The CHAIRMAN. In other words, they were out like a private enterpriser, out soliciting business and selling people on the idea of coming into this great scheme?

Mr. ELLIOT. That is right. That is exactly right. We had tremendous pressure from Washington to get that program rolling.

The CHAIRMAN. The different programs rolling?

Mr. ELLIOT. Yes. We had tremendous pressure to get the section 608 program rolling. I opposed that program from the very start and was criticized for it.

The CHAIRMAN. So you as the assistant State director were out promoting and trying to make sales as though you were a private enterpriser?

Mr. ELLIOT. Not enterpriser.

The CHAIRMAN. Promote people into the business?

Mr. ELLIOT. That is right. I was sent out, told to induce builders to engage in the small-loan program.

The CHAIRMAN. This business was one grand promotion on the part of the Government back in the 1940's, and the builders and FHA officials throughout the country and bankers and everybody concerned; is that you are testifying?

Mr. ELLIOT. I think the economy of the country, according to the explanation I received, anyway, was such that the small-home owner couldn't find on the market at that time a property that he could afford, so they started this campaign to foster these builders and get them to build these small houses. Now, you understand, Senator, I am not advocating that. I am telling you what I was ordered to do. I had to do that.

The CHAIRMAN. Yes. You were ordered to do so by Washington?

Mr. ELLIOT. That is correct.

The CHAIRMAN. Back in 1947?

Mr. ELLIOT. That is correct. In fact, I think we even had kind of a meeting and people came out from Washington and told us get going on it.

The CHAIRMAN. To really come out and promote?

Mr. ELLIOT. Yes.

The CHAIRMAN. I want to say we are delighted to be in California, and the State so ably represented in Washington by Senator Kuchel. He and I are great friends, and I just want to say this for his benefit: He has been spending a lot of time in Washington trying to get through some help on so-called smog. I have been working with him. I want you to know I am going to keep helping Senator Kuchel until we get that problem solved. I want you to know how delighted we are to have you here.

Senator KUCHEL. When did you enter the law firm of which you speak in Oregon, Mr. Elliot?

Mr. ELLIOT. I was associated with that firm before the war, Senator. My practice was disturbed in 1941 when the war broke out, and when I returned in 1946, in the fall, I was again received there as an associate, but I didn't even have a desk at that time. Space was at a premium in Portland. It was quite difficult.

Senator KUCHEL. You were a member of that law firm, then, at the time you became employed as assistant State director of FHA?

Mr. ELLIOT. Yes, sir. I want you to understand it was not a partnership. I was associated with these gentlemen and sometimes we divided fees, depending upon the sort of business that came to the office.

Senator KUCHEL. And you maintained that same relationship did you, after you became assistant director of FHA?

Mr. ELLIOTT. Yes, sir.

Senator KUCHEL. Now, at what time did you become acquainted with the regulation against outside income or outside employment when you became a Federal governmental employee?

Mr. ELLIOT. That was a short time after I accepted the appointment with the Federal Government, and as soon as I found out about it I initiated the request to carry on my practice, because at that time, at least, I couldn't live on \$5,200 a year and support the people that I had to support.

Senator KUCHEL. I might say I think those salaries are too low.

If your income as a lawyer was based upon what business you brought into the firm yourself, as an associate, as distinguished from those in the firm who may have been partners, then what type of fees did you receive from the law firm after you became deputy FHA director in Oregon?

Mr. ELLIOT. Well, I am not certain that I understand the question, Senator. I just received a proportionate part of any fees that came to the office through my responsibility. Mr. Kettel was one of those, and there were no other people in the building business. If you would like to know that—I mean, I didn't find anybody else in FHA and send them over to the firm, which I could have done.

Senator KUCHEL. Then your testimony is that Mr. Kettel brought his business into this law firm because of yourself?

Mr. ELLIOT. No. He came and asked me if I would recommend some attorneys, and I did. I gave him a list with 4 or 5 people on there.

Senator KUCHEL. Including your own firm?

Mr. ELLIOT. I included one of the gentlemen in my firm; yes, sir.

Senator KUCHEL. And Mr. Kettel thereafter took his law business to the individual in the firm?

Mr. ELLIOT. Well, I think he first took it to a third party, and kept him only a couple of weeks, and then he took it over to my partner.

Senator KUCHEL. You used the word "partner."

Mr. ELLIOT. I mean my associate. That was a misuse of the term.

Senator KUCHEL. At that time the associate in your law firm began doing this work for you, subject to your approving certain contracts, and thereafter gave you a portion of the fees which he received?

Mr. ELLIOT. Yes, sir; he eventually gave me all of them because he couldn't get along with Mr. Kettel. He said "I am not going to do business with this fellow any more. I can't get on with him," and he said "If you want to carry it on you will have to do it on your own time," which I did, because I wanted to earn the money.

Senator KUCHEL. Did you remain a member of that law firm during the entire time you acted as deputy?

Mr. ELLIOT. Yes, sir.

Senator KUCHEL. You suggested to Mr. Elliot that the employees who processed loans in the FHA offices in Oregon were not responsible to you in your capacity as assistant? To whom were they responsible?

Mr. ELLIOT. They were responsible to the Director, but in my position as assistant director—and I want to make this absolutely clear because there is innuendo here—had any builder or anyone promoting an FHA project, had come to me and offered me any sum of money, there is no way that I could favor that man because in the office I had absolutely nothing to do with the underwriting section. The chief underwriter is the final man that says how much the commitments are going to be. If I would go to the chief underwriter and say "I want this commitment raised," he would have laughed at me.

Senator KUCHEL. Was he responsible to the State director and to that extent did he take orders and directions from the State director?

Mr. ELLIOT. No, sir; he did not. He takes his orders from Washington. The chief underwriter is independent in the office, except for matters touched only administratively.

Senator KUCHEL. That is all, Senator.

The CHAIRMAN. Thank you very much.

Our next witness will be Mr. Horace Irving Moses.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF HORACE I. MOSES, GLENDALE, CALIF., ACCOMPANIED BY JAMES B. REECE, COUNSEL

Mr. MOSES. Yes, sir.

The CHAIRMAN. Your wish is there be no photographs or no television?

Mr. MOSES. That is right.

The CHAIRMAN. The witness requests no television or no photographs and therefore we will ask the television people and the photographers to stand by temporarily.

Mr. SIMON. Will you give your name and address to the reporter, please, Mr. Moses?

Mr. MOSES. Horace I. Moses, 1968 Eden Avenue, Glendale.

The CHAIRMAN. And the gentleman with you is your attorney?

Mr. MOSES. Yes, sir.

Mr. REECE. James B. Reece, 306 West Third Street.

The CHAIRMAN. You are the attorney representing Mr. Moses?

Mr. MOSES. That is right.

Mr. REECE. Yes, sir.

The CHAIRMAN. You may proceed.

Mr. SIMON. Mr. Moses, from 1939 until the last month or so, except for a period during the war, were you the construction examiner for FHA?

Mr. MOSES. Yes, sir.

Mr. SIMON. And recently have you been the senior construction examiner in the Los Angeles office?

Mr. MOSES. I have had a rating as senior examiner.

Mr. SIMON. Senior construction examiner?

Mr. MOSES. That is right.

Mr. SIMON. In that connection did you have anything to do with section 608 projects?

Mr. MOSES. Yes, sir.

Mr. SIMON. What was your connection with section 608 projects?

Mr. MOSES. I worked primarily in consultation with prospective builders of section 608's.

Mr. SIMON. Would you work more particularly with their construction engineers, or processors with respect to the construction of the proposed buildings?

Mr. MOSES. My work was primarily working with them to develop preliminary sketches that would be the drawings for such projects.

Mr. SIMON. The height of the section 608 program was 1949 and 1950, wasn't it?

Mr. MOSES. I think so.

Mr. SIMON. In 1949 was your salary from the Federal Government, \$5,089.22?

Mr. MOSES. I don't know that, sir.

Mr. SIMON. I will show you a statement here and ask you if that refreshes your recollection.

Mr. REECE. We have a copy here, Mr. Simon. It is the same one.

Mr. SIMON. Page 5.

Was your salary from the Federal Government, \$5,089.22?

Mr. MOSES. That is right.

Mr. SIMON. In that year did you do some outside work for people having dealings with FHA?

Mr. MOSES. Yes.

Mr. SIMON. Who were those people?

Mr. MOSES. I associated myself with T. A. Newcomb.

Mr. SIMON. T. A. Newcomb?

Mr. MOSES. Yes.

Mr. SIMON. N-e-w-c-o-m-b?

Mr. MOSES. That is right.

Mr. SIMON. What was Mr. Newcomb's business?

Mr. MOSES. Mr. Newcomb was representing builders who were working with this section 608 programs, partially. That was part of his business.

Mr. SIMON. His work was to represent builders of section 608's before FHA?

Mr. MOSES. That is right.

Mr. SIMON. Now, during 1950 did you have another connection with some similar businessman?

Mr. MOSES. The same connection. This was not a job. I wasn't working directly for Mr. Newcomb. I associated with him on occasion.

Mr. SIMON. Wasn't there a second concern that you also did some work with or for in addition to Mr. Newcomb?

Mr. MOSES. Not at that time.

Mr. SIMON. When did that come in?

Was that after 1950?

Mr. MOSES. Yes.

Mr. SIMON. In 1949 how much money did you get from Mr. Newcomb?

Mr. MOSES. I have a statement of other income amounting to \$4,899.93. That is principally from that source.

Mr. SIMON. Principally from Mr. Newcomb?

Mr. MOSES. That is right.

The CHAIRMAN. Who are Mr. Newcomb's accounts?

Mr. MOSES. The account that started my association with Mr. Newcomb was with Mr. Hayden Bear.

The CHAIRMAN. Hayden Bear?

Mr. MOSES. That is right.

Mr. SIMON. Is he a builder?

Mr. MOSES. Yes.

The CHAIRMAN. A section 608 builder?

Mr. MOSES. Yes.

The CHAIRMAN. Under what name did he operate?

Mr. MOSES. I don't know. There were Bear Bros.

The CHAIRMAN. How do you spell Bear?

Mr. MOSES. B-e-a-r.

The CHAIRMAN. What projects did he build?

Mr. MOSES. There are two that I was associated with.

The CHAIRMAN. He got an FFA mortgage commitment on it?

Mr. MOSES. That is right.

Mr. SIMON. Mr. Moses, in 1949 your income from this other source was within \$200 of your Government salary, wasn't it?

Mr. MOSES. Yes.

Mr. SIMON. In 1950 how much did you get from this other source?

Mr. MOSES. \$4,347.18.

Mr. SIMON. Is it \$4,374.18?

Mr. MOSES. I guess that is right; yes, sir.

Mr. SIMON. And in the 5-year period, the total was \$11,017.68?

Mr. MOSES. That is not an accurate statement of funds from that source or from those sources.

The CHAIRMAN. Is it within 90 percent of the increases?

Mr. MOSES. Yes, sir.

Mr. SIMON. The other 10 percent came from where?

Mr. MOSES. Interest, the sale of a piece of property, minor items of that nature.

Mr. SIMON. But we can safely say that \$10,000 of the \$11,017 came from working for these people who were doing business with FHA?

Mr. MOSES. No; not all of it in connection with FHA work.

Mr. SIMON. No; but all of it for people——

Mr. REECE. That isn't correct, Mr. Simon. Let the man explain, please.

Mr. SIMON. Wasn't all of it from people who had business with FHA?

Mr. MOSES. No.

Mr. SIMON. How much did you get from Newcomb?

Mr. MOSES. The 2 years of 1949 and 1950 represent my association with Newcomb.

Mr. SIMON. That would be \$9,200, wouldn't it?

Mr. MOSES. About.

Mr. SIMON. Wasn't there a second man in this category that you did work for?

Mr. MOSES. No.

Mr. SIMON. You got \$9,200 from Newcomb; is that correct?

Mr. MOSES. I am talking about those years of 1949 and 1950.

Mr. SIMON. Right.

Mr. MOSES. That is correct.

Mr. SIMON. Isn't there a second man? What about Curtis Chambers?

Mr. MOSES. I had an association with him at a later date.

Mr. SIMON. Did he do work with FHA?

Mr. MOSES. Yes.

Mr. SIMON. How much did you get from him?

Mr. MOSES. I believe the total was \$1,600.

Mr. SIMON. Then would it be accurate to say that you got \$9,200 from Newcomb and \$1,600 from Chambers, or a total of \$10,800 from these two people who were doing work with FHA?

Mr. MOSES. The work I did with Chambers had nothing to do with the FHA work in the Los Angeles office.

Mr. SIMON. I didn't say that, Mr. Moses, but he was doing business with FHA, wasn't he?

Mr. MOSES. He was architect for men who were putting projects through FHA.

Mr. SIMON. Now, Mr. Moses, are you acquainted with chapter 7 of the FHA handbook for employees?

Mr. MOSES. I can't say that I am.

Mr. SIMON. Do you know that there was a provision in the FHA handbook for employees that says that "No employee of FHA shall accept any favor, gratuitous service, gift, loan, or any item of value in any form whatsoever, directly or indirectly, from any person or organization which has done, is doing, or proposes to do business with FHA"?

Mr. REECE. Mr. Simon, may I ask you the date that was issued?

Mr. SIMON. I can't give you the date, but long before——

Mr. REECE. I can give it to you. It is 1951.

Mr. SIMON. Did you know there was such a regulation?

Mr. MOSES. I think I understand, sir. This is the regulation here. I didn't understand what you were referring to. This is a regulation that I received some time after August 1951, which is the date this is marked.

Mr. SIMON. You got money in 1952 and 1953 from these people, didn't you?

Mr. MOSES. I did outside work at that time that had nothing to do with my work at FHA.

Mr. SIMON. Let me ask you this: Going back to 1949 and 1950, and forgetting this regulation, do you think it was a moral and proper thing for a construction examiner of FHA to be taking fees from Mr. Newcomb, who had FHA projects under section 608 then pending in your office?

Mr. MOSES. I think the nature of the fee is probably the answer that would substantiate my position, when I say I feel I was justified in doing that.

Mr. SIMON. You think it is a perfectly proper thing for you to get \$9,200 in 2 years during which your Government salary in the same 2 years was only \$10,300 from this man Newcomb, who was then processing section 608 applications in your office? You think that is proper?

Mr. MOSES. I think I earned those fees.

Mr. SIMON. Do you think it is proper?

Mr. MOSES. I think I did a proper job for the services that I received the money for.

Mr. SIMON. That wasn't my question. The question was whether it was proper for you to take the money from the man who had that business before FHA?

Mr. MOSES. I think the question of propriety is a question of how the service was rendered, and what service was rendered for the fee.

Mr. SIMON. Let us get back. Do you think it was a proper thing?

Mr. MOSES. I do.

Mr. SIMON. You think it was a proper thing?

Thank you very much.

The CHAIRMAN. I think it was an improper thing, and I think it was an improper thing for these people to pay it to you. I think they were just as improper and irregular as you were in accepting it. I want the record to show that. I think these builders that were paying or offering to pay FHA employees were just as guilty—

Mr. MOSES. No builder offered to pay me anything, sir.

The CHAIRMAN. I say those that offered to do it. I don't say they did it in your case.

Mr. MOSES. I did not receive any money from any builder.

Mr. SIMON. I take it Mr. Newcomb received his fees from builders?

Mr. MOSES. Mr. Newcomb—Mr. Newcomb performed a service for a builder—

Mr. SIMON. For which he was paid by the builder?

Mr. MOSES. For which the builder paid him.

Mr. SIMON. And out of those funds he paid you?

Mr. MOSES. I did some of the work that Mr. Newcomb did, and got recompensed in proportion to my services.

Mr. SIMON. And he paid you out of the fees he in turn received from the builder?

Mr. MOSES. That is correct.

The CHAIRMAN. Are there any questions?

Mr. KENNEY. May I ask a question, Senator?

The CHAIRMAN. Yes.

Mr. KENNEY. Your transactions with Mr. Newcomb—had you requested approval of the FHA office for that relationship for the handling of those transactions?

Mr. MOSES. Those drawings did go across my desk.

The CHAIRMAN. In other words, the same drawings that you made for Newcomb came across your desk as the FHA man? Is that what you are saying?

Mr. MOSES. No, sir. I assisted Newcomb in a general layout capacity. Drawings that Newcomb then prepared from my layout did come to FHA.

Mr. KENNEY. This work was done in the FHA office at the request of the chief underwriter, and then he took your suggestions and drafted plans and specifications which would conform to your suggestions, or was this work that you did outside of the office?

Mr. MOSES. In his work I did outside of the office.

Mr. KENNEY. Was that approved by FHA?

The CHAIRMAN. In other words, did FHA know that you were doing this work outside the office?

Mr. MOSES. No; they did not know it.

The CHAIRMAN. The State director or Los Angeles director did not know you were doing work on the side?

Mr. MOSES. No.

Mr. KENNEY. You knew, or did you know at that time, that there was a requirement that outside activities be reported and be approved?

Mr. MOSES. I do not recall such knowledge.

Mr. KENNEY. That is all.

Senator KUCHEL. Mr. Moses, you are still employed by the FHA here in Los Angeles?

Mr. MOSES. I have been put on annual leave.

Senator KUCHEL. When were you put on annual leave, roughly?

Mr. MOSES. Approximately a week ago.

Senator KUCHEL. Up until the time you were put on annual leave were you still engaged in this outside field of endeavor?

Mr. MOSES. No, sir.

Senator KUCHEL. When did you stop that?

Mr. MOSES. The work I did with Mr. Chambers, which I said did not have anything to do with my work at FHA, is the last I have done this way.

Senator KUCHEL. When was that?

Mr. MOSES. That was in 1952.

Senator KUCHEL. What was the reason you discontinued your outside work in 1952? In other words, why did you do it? Why did you stop?

Mr. MOSES. I had this specific job brought to me, and I performed my services on that job. I didn't solicit this work in the first place. Then other work did not come to me.

Senator KUCHEL. So that it is your statement that subsequent to 1952 you simply had no more requests from people to utilize your services as you had done theretofore?

Mr. MOSES. That is correct.

Mr. SIMON. Mr. Moses, when in 1952 did you stop doing this outside work?

Mr. MOSES. This 1952 incident was one job.

Mr. SIMON. When, Mr. Moses?

Mr. MOSES. And it extended over a period of time. I don't recall exactly when I did it.

Mr. SIMON. Do you recall signing a statement of outside interests on January 3, 1952?

Mr. MOSES. Yes, sir. I have seen that statement.

Mr. SIMON. You signed it, did you?

Mr. MOSES. Yes, sir.

Mr. SIMON. On January 3, 1952?

Mr. MOSES. That is right.

Mr. SIMON. In that statement did you answer a question in the negative that asked you to list your outside activities, if any?

Mr. MOSES. That is right.

Mr. SIMON. That wasn't true; was it?

Mr. MOSES. Yes; it was. I had no outside activities at that time.

Mr. SIMON. It is accurate only because while you had it the prior year and while you had it the following months, you didn't have any on that date; is that it?

Mr. MOSES. I happened to have one other activity since that time.

Mr. SIMON. But you didn't have any on that particular date?

Mr. MOSES. I did not have and I did not anticipate any.

Mr. SIMON. That was the reason you didn't tell FHA in this statement that you had been doing work outside for the past 4 years?

Mr. MOSES. That is so.

Mr. SIMON. Thank you.

The CHAIRMAN. Thank you very much, Mr. Moses, unless there are further questions.

Our next witness will be Mr. John William Salmon, 2145 Beverwil Drive, Los Angeles.

Mr. Salmon, will you be sworn, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF JOHN WILLIAM SALMON, LOS ANGELES, CALIF.,
ACCOMPANIED BY EDWARD S. SHATTUCK, COUNSEL**

Mr. SALMON. I do.

No pictures. I request no pictures.

The CHAIRMAN. It is the request of the witness that there be no photographs or—does that apply to television, too?

Mr. SALMON. That is right.

The CHAIRMAN. There will be no photographs or television and we ask that the television people and the photographers please be governed accordingly, as we have a policy in this committee of trying to follow the wishes of the witnesses as best we can.

Will you give your full name and address to the reporter?

Mr. SALMON. John William Salmon.

The CHAIRMAN. Your address, please?

Mr. SALMON. 2145 Beverwil Drive, Los Angeles.

The CHAIRMAN. The gentleman with you is—

Mr. SALMON. Mr. Edward S. Shattuck.

The CHAIRMAN. How long were you with FHA, Mr. Salmon?

Mr. SALMON. November 12, 1934.

The CHAIRMAN. You went to work for them on November 12, 1934?

Mr. SALMON. That is right.

The CHAIRMAN. You were suspended on what date?

Mr. SALMON. I went on annual leave, and I don't know the exact date, because they put me on annual leave, but it was sometime after, about 4 weeks ago, I would say.

The CHAIRMAN. About 4 weeks ago?

Mr. SALMON. Yes.

The CHAIRMAN. What was your position when you were suspended or put on annual leave?

Mr. SALMON. Chief appraiser.

The CHAIRMAN. You were the chief appraiser?

Mr. SALMON. Yes, sir.

The CHAIRMAN. That meant that you were the top appraiser in the Los Angeles office?

Mr. SALMON. That is correct.

The CHAIRMAN. Of all FHA projects?

Mr. SALMON. Yes.

The CHAIRMAN. That included section 608's.

Mr. SALMON. Yes.

The CHAIRMAN. In that capacity as chief appraiser you were the final word as to the amount of any mortgage commitment on the part of the Federal Government in the Los Angeles office?

Mr. SALMON. No, sir. I signed the report of valuator, the final determination had two steps. The mortgage-risk section and finally by the chief underwriter.

The CHAIRMAN. You were 1 of 3, then, that had final say?

Mr. SALMON. One of four.

The CHAIRMAN. That had final say.

Mr. Counsel.

Mr. SIMON. Mr. Salmon, did you buy a house for \$10,000 from Diller-Weber Co. some years ago?

Mr. SALMON. Yes, sir.

Mr. SIMON. When was that?

Mr. SALMON. In October of 1949.

Mr. SIMON. Are you acquainted with the fact that there are two houses on a tract separated by an alley from the remaining one hundred and seventy-some houses on the larger tract?

Mr. SALMON. There is no alley, sir.

Mr. SIMON. There is a little space, isn't there, separating them?

Mr. SALMON. No. They are adjoining lots.

Mr. SIMON. Are you acquainted with the fact there are these two lots, numbered 1 and 2, that are different from the others.

Mr. SALMON. That is correct. They are in a different tract, and they were subject to a report from the county flood control that they were subject to erosion, and, therefore, it was rejected by FHA.

Mr. SIMON. Those two lots were rejected. The others were not; is that right?

Mr. SALMON. I think there was 1 or 2 in that same tract, but they were across the creek. We are talking about two tracts.

Mr. SIMON. Yes, sir.

Now, in your opinion—when did you buy this house?

Mr. SALMON. In October of 1949. That is when the escrow went in.

Mr. SIMON. In your opinion, what was the fair market value of that house on the day you bought it?

Mr. SALMON. Ten thousand dollars, due to those things.

Mr. SIMON. What, in your opinion, was the fair market value of the house next door in the erosion tract?

Mr. SALMON. Well, sir, we don't go—appraisals under the Federal housing—

Mr. SIMON. I am not talking about Federal housing. I am talking about your opinion as an appraiser.

Mr. SALMON. \$14,500 or \$14,600.

Mr. SIMON. What is the difference between your house and the house next door?

Mr. SALMON. The lot and the orientation on the lot. It was quite a bit forward.

Mr. SIMON. That also is in an erosion area?

Mr. SALMON. No, sir.

Mr. SIMON. You have a house on the other side?

Mr. SALMON. You are talking about the same tract?

Mr. SIMON. I am talking about the other house in the same tract that is also in the soil erosion area. What was the value of that house on October 1949?

Mr. SALMON. Well, I don't think it is worth more than mine.

Mr. SIMON. So they were both worth \$10,000?

Mr. SALMON. As far as I was concerned, yes.

Mr. SIMON. And do you know the man paid \$15,500 for it?

Mr. SALMON. I heard it brought out here today.

Mr. SIMON. In your opinion, they were both worth the same amount, and you think that yours was worth \$10,000?

Mr. SALMON. To me, yes.

The CHAIRMAN. How do you justify the fact, then, that Diller and Weber sold someone else, a stranger, the house for \$15,500 and sold you a comparable house for \$10,000?

Mr. SALMON. Well, may I go back to the first houses?

The CHAIRMAN. Go back to where?

Mr. SALMON. To how that arose?

The CHAIRMAN. No. Just answer my question. How do you justify selling one man a house for \$15,500 and another one, the same type of house, for \$10,000?

Mr. SALMON. I really don't know.

The CHAIRMAN. There is no justification for it, is there?

Mr. SALMON. I wouldn't think so. But he told me that the house that I bought, that he was going to sell it for \$10,000, and if I wanted it I could have it.

The CHAIRMAN. In other words, you either paid too little or the other fellow paid too much; is that a fair assumption?

Mr. SALMON. That would appear so.

Mr. SIMON. If we go down the block a little bit there are a number of other houses that are not in this soil erosion area, and one of those is the Mitchell house; is that right?

Mr. SALMON. Yes, sir; that is in another tract.

Mr. SIMON. At this same period of time in 1949 what in your opinion was the value of the Mitchell house?

Mr. SALMON. I would have to go back to the appraisals we made.

Mr. SIMON. I am not asking you what the appraisals show. I am asking you as an expert appraiser what in your opinion was the value of the Mitchell house in October 1949?

Mr. SALMON. I would say around \$14,000, \$14,500.

Mr. SIMON. What was the value of the houses on either side of it?

Mr. SALMON. I think they would be a little more because they were not slab construction; maybe \$14,500 to \$15,000.

Mr. SIMON. You would say his was worth \$14,500 and the others \$15,000?

Mr. SALMON. That is right.

Mr. SIMON. If the others paid \$16,000 to \$16,500 they paid a little too much; is that right?

Mr. SALMON. I can't answer for that.

Mr. SIMON. If he paid \$11,500 he got it about \$3,000 under what you think is the value?

Mr. SALMON. It would appear that way, sir.

Mr. SIMON. Now, Mr. Salmon, do you know a company called Burgbacher Co.?

Mr. SALMON. Burgbacher & Sons; yes, sir.

Mr. SIMON. How do you spell that?

Mr. SALMON. B-u-r-g-b-a-c-h-e-r, I think.

Mr. SIMON. Are they in the building business?

Mr. SALMON. Yes, sir.

Mr. SIMON. Did they do business with FHA?

Mr. SALMON. Yes, they did.

Mr. SIMON. Do they have a lot of applications that have gone over your desk in the last 5 or 6 years?

Mr. SALMON. Well, I would say up until 3 or 4 years ago they had a lot. They moved to Phoenix, I think in 1949 or 1950.

Mr. SIMON. Prior to 1951 they had a lot of applications that went across your desk?

Mr. SALMON. Yes, sir.

Mr. SIMON. In 1950 did they pay your wife about \$13,000 for doing some bookkeeping on a tract?

Mr. SALMON. No. She was the selling agent on it.

Mr. SIMON. She has testified that she and a man were out there together. The man did the selling and she did the bookkeeping and the housekeeping.

Mr. SHATTUCK. That is not quite correct.

Mr. SIMON. Let me have him tell me what it is. I would be glad to have him correct it.

Mr. SALMON. I understand there were two men.

Mr. SIMON. What did the two men do?

Mr. SALMON. They were selling the houses.

Mr. SIMON. What did your wife do?

Mr. SALMON. She took care of all the sales and everything else, like any—she had to have a real estate license to do what she was doing.

Mr. SIMON. Did Burgbacher pay a total of \$27,000 for all the work of the two men and your wife?

Mr. SALMON. It was \$100 a house. I don't know how many houses was in it.

Mr. SIMON. 268 houses sound right to you?

Mr. SALMON. I think that is right.

Mr. SALMON. Your wife got \$50 out of the \$100?

Mr. SALMON. That is right.

Mr. SIMON. The two men shared the other \$50?

Mr. SALMON. That is right.

Mr. SIMON. So your wife got \$13,400?

Mr. SALMON. Whatever it was.

Mr. SIMON. How long a period of time did it take her to earn that \$13,400 from Burgbacher?

Mr. SALMON. I don't know, around 7 to 9 months.

Mr. SIMON. Seven to nine months?

Mr. SALMON. That is correct, sir. It sold out fast.

Mr. SIMON. What was your FHA salary right at that time?

Mr. SALMON. I don't know. It is of record, whatever a grade 12 was at that time.

The CHAIRMAN. You don't remember your salary?

Mr. SALMON. No; I don't.

The CHAIRMAN. How often do you get paid?

Mr. SALMON. Every 2 weeks, sir.

The CHAIRMAN. You do not remember your salary?

Mr. SALMON. No; I don't.

Mr. SHATTUCK. He means in 1949.

The CHAIRMAN. Do you remember your salary at the present time?

Mr. SALMON. Yes. It is—I got an increase in January. It is \$8,560.

Mr. SIMON. So in 1950 it wasn't more than \$8,500 a year, was it?

Mr. SALMON. No; it was less, sir.

Mr. SIMON. In this 7- to 9-month period your wife made \$13,400 on this tract?

Mr. SALMON. That is right.

Mr. SIMON. Do you know Cohen Bros.?

Mr. SALMON. Yes.

Mr. SIMON. Do they have business with FHA?

Mr. SALMON. Yes. They did business with FHA.

Mr. SIMON. In 1950 did they give your wife a Ford?

Mr. SALMON. For work she had done for them.

Mr. SIMON. They gave her a Ford, though?

Mr. SALMON. That is what she told me.

Mr. SIMON. If she did some work for them why didn't they pay her for it instead of giving her a Ford?

Mr. SALMON. That I don't know. I never talked to them or her about it.

Mr. SIMON. What did she do for this Ford?

Mr. SALMON. She went out a lot, got property, did a lot of research work for them in the southwest part of town and out in Riviera.

Mr. SIMON. What do you mean by research work?

Mr. SALMON. She went out and got listings on properties, and so forth, and submitted it to them and they were not interested in it.

Mr. SIMON. Were not interested in it?

Mr. SALMON. When she submitted them to them.

Mr. SIMON. Because they were not interested they gave her a Ford; is that right?

Mr. SALMON. I can't answer for everything she done because I don't know. I don't know her agreement with them.

Mr. SIMON. Now, in 1953 did Kalsman and Diller collect \$5,700 from builders for your wife?

Mr. SALMON. That was called to my attention at the time we were filling it out. I saw that, there was \$5,700 or whatever it was that was put into a hospital fund for Tress M. Salmon.

Mr. SIMON. When did you first learn about it?

Mr. SALMON. When we were filling it in. I think it was the Sunday before filing it. I think you had to file it on Tuesday, which was 5 weeks ago today.

Mr. SIMON. That would be in July 1954?

Mr. SALMON. Yes, sir.

The CHAIRMAN. When was the money collected?

Mr. SALMON. I honestly don't know. I think it is in January or February of 1952.

Mr. SIMON. You say you didn't know about it—it was January or February of 1953, wasn't it?

Mr. SALMON. Yes. She was operated on in November of—

Mr. SIMON. 1951?

Mr. SALMON. 1952. It was the next year.

Mr. SIMON. You didn't know about it until 18 months?

Mr. SALMON. No, sir.

Mr. SIMON. Why didn't she tell you about it?

Mr. SALMON. I don't know the reason why. Maybe if she had come to me I wouldn't have accepted it.

Mr. SIMON. You would have felt it was an improper thing and wouldn't have taken it?

Mr. SALMON. That is correct.

Mr. SIMON. So your wife didn't tell you about it?

Mr. SALMON. No, sir.

The CHAIRMAN. You say you thought it was an improper thing?

Mr. SALMON. It would be.

The CHAIRMAN. Therefore, these builders that we are going to put in the record here or the names of the builders that contributed—you think they did the wrong thing?

Mr. SALMON. As far as I would be concerned, there would be no question about it.

The CHAIRMAN. They are just as much to blame as anyone who accepted it—more so, in my opinion.

Mr. SALMON. Well, I—

Mr. SIMON. Mr. Salmon, what happened to that \$5,700?

Mr. SALMON. I think the attorney has that data here and could answer it better than I could.

Mr. SIMON. Do you know what happened to it?

Mr. SALMON. I know she paid some doctor bills out of it. I don't know the exact amount that still remains in the fund.

Mr. SIMON. Is there still \$4,600 in the bank?

Mr. SALMON. I am not sure of the figures, sir.

Mr. SIMON. Is it about that?

Mr. SALMON. I would say so.

Mr. SIMON. The other \$1,100 went to pay some doctor bills?

Mr. SALMON. That is right.

Mr. SIMON. I take it you knew your wife had these bills, didn't you?

Mr. SALMON. Well, sir, I thought there was \$200 unpaid on the original operation.

Mr. SIMON. What I am trying to find out is how your wife could take \$1,100 out of this fund to pay those doctor bills, and you not even know there was——

Mr. SALMON. I didn't know they were that high, sir. I thought they were coming out of our account, sir.

Mr. SIMON. You didn't know what the doctor bills were?

Mr. SALMON. No, sir.

Mr. SIMON. Does your wife have a bank book for the bank that that \$4,600 is in?

Mr. SALMON. Yes. Mr. Shattuck has it right here.

Mr. SIMON. Did the bank statements ever come to your house?

Mr. SALMON. I presume so. I don't know whether they came or she went up and got them. I cannot say.

Mr. SIMON. Did you ever see the bank statements?

Mr. SALMON. No, sir.

Mr. SIMON. A period of 18 months and you never saw the bank statements when they came to the house?

Mr. SALMON. That is right.

Mr. SIMON. In the spring of this year did Mr. Diller pay your wife \$3,000?

Mr. SALMON. That is correct, sir.

Mr. SIMON. What was that \$3,000 for?

Mr. SALMON. That was for a piece of property bought in the valley.

Mr. SIMON. What did your wife do to earn the \$3,000?

Mr. SALMON. Well, I never talked it over with her. I suppose she went out and got a listing on it and submitted it to him.

Mr. SIMON. Do you know whether he bought the piece of property that she submitted a listing on?

Mr. SALMON. I am not positive, sir.

Mr. SIMON. Do you know whether she gave him one list and he bought another one but he gave her \$3,000 to "protect her brokerage"?

Mr. SALMON. I am not too familiar with it. I don't know.

Mr. SIMON. But you do know that in April of 1954——

Mr. SALMON. She did get a fee from——

Mr. SIMON. Richard Diller paid her \$3,000?

Mr. SALMON. That is right.

Mr. SIMON. Do you have a brother Roger?

Mr. SALMON. Yes, sir.

Mr. SIMON. Is Roger in the building business?

Mr. SALMON. Yes.

Mr. SIMON. Does he have some business with FHA?

Mr. SALMON. Yes.

Mr. SIMON. Did he build a couple of section 608's?

Mr. SALMON. If memory serves me right, he built four small ones.

Mr. SIMON. Four section 608's?

Mr. SALMON. He and his partner.

Mr. SIMON. In 1952 did your brother Roger give you \$2,000?

Mr. SALMON. In December of 1952, when my wife was in the hospital; yes, sir; I received \$5,200 and so told you.

Mr. SIMON. Two thousand, wasn't it?

Mr. SALMON. Yes.

Mr. SIMON. Two thousand dollars from your brother Roger?

Mr. SALMON. That is right.

Mr. SIMON. If I might pause for a minute to recapitulate, you got \$2,000 from your brother Roger, your wife got \$13,400 from Burgbacher; is that correct?

Mr. SALMON. Whatever that figure was.

Mr. SIMON. Forgive me for a minute. I have to go back.

In 1947 did your wife get \$1,200 from Mr. Weber for being rental agent on the Monte Bello property?

Mr. SALMON. Yes. I understand so.

Mr. SIMON. That \$1,200, and then \$3,000 from Diller this year, and \$5,700 in the trust fund; is that right?

Mr. SALMON. That must be right.

The CHAIRMAN. If it isn't right, let us correct it.

Mr. SIMON. I will go over it again.

\$2,000 from your brother in 1952? Is that right?

Mr. SALMON. That is right.

Mr. SIMON. \$13,400 from Burgbacher in 1950?

Mr. SALMON. That is right.

Mr. SIMON. \$1,200 from Weber, in 1947?

Mr. SALMON. That is right.

Mr. SIMON. \$3,000 from Diller in 1954?

Mr. SALMON. That is right.

Mr. SIMON. And \$5,700 in January—

Mr. SALMON. Now, you haven't separated that. The only money I got was the \$2,000 from my brother.

Mr. SIMON. Yes, but your wife got this \$5,700 in January or February of 1950—

Mr. SALMON. Whatever it was from Burgbacher and the \$2,000.

Mr. SIMON. If you will permit us to treat you and your wife together in this. That figures \$25,300 plus the Ford that Cohen gave her in 1940, plus the extent, if any, you bought the house from Weber and Diller below its value; is that right?

Mr. SALMON. That is correct.

Mr. SIMON. Thank you, sir.

The CHAIRMAN. Are there any further questions?

Senator KUCHEL. May I ask one question, Senator?

Mr. Salmon, I notice on these forms, copy of which I have before me, FHA Form 2261-W, that you in this particular instance signed the form as chief valuator. Did you sign a similar FHA form as chief valuator covering the property from which you ultimately purchased this one house and lot?

Mr. SALMON. I wouldn't know, Senator. The reason is that oftentimes my deputy signed them.

Mr. SIMON. You mean signed your name to it?

Mr. SALMON. No, he signed it as deputy, sir, which is proper.

Senator KUCHEL. What I refer to particularly is the certification which appears directly above the place where in this instance you signed a form as chief evaluator, and I quote it:

I hereby certify that I have read section 512 (a) of the National Housing Act, as amended, that I have no personal interest, present or prospective in the property. The proceeds of the mortgage as proposed to be secured by the property or the applicant thereto.

I assume that was kind of a puny endeavor on the part of the FHA agency to permit an individual like yourself to disclaim any interest, present or prospective, and my only thought is, in purchasing a home at what appears to be a substantial reduced figure from those which were sold immediately adjoining it, on each side, that you had either a present or prospective interest in that piece of property?

Mr. SALMON. Senator, that property that I purchased, and the one next to it, was not eligible to FHA, so there was no commitment issued on them.

Senator KUCHEL. It was owned, however, by people who had been doing business with you in other instances?

Mr. SALMON. That is correct.

The CHAIRMAN. I wish to read into the record at this point the list of the contractors and the principal owners or officers that contributed to this \$5,700 fund, of which there is still \$4,600 on hand, and this list was furnished to us by Mr. Shattuck for Mr. Salmon.

Bramford Co., Bill Schuhofer—these are the principal owners and other officers—Bill Schuhofer, L. M. Halper, Philip S. Eisendrath, and L. M. Robins.

Then the Hirsch-Edmonds Building Co., Harold Hirsch and Art Edmonds.

Then the Overland Associates, Richard Diller and Irving Kalsman. Delaware Corp., Edward Zuckerman and Barney Morris.

Midland Investment Co., Al Lushing.

Liberty Building Co., Sam Firks, Lou Towne; Feintech Bros., Norman Feintech and Irving Feintech.

Panorama Community Homes, Fritz Burns.

Carson Park Builders, Mark Boyar and Lou Boyar.

Lakewood Park Construction Co., Lou Boyar, Mark Taper, and Ben Weingard.

J. George Wright.

Happy Homes, Ed Krist.

David Salot.

Aldon Construction Co., Don Metz and Bill Woodrow.

Without objection, this will be made part of the record.

(The material referred to follows:)

GUTHRIE, DARLING & SHATTUCK,
Los Angeles 14, August 26, 1954.

Hon. HOMER D. CAPEHART,
Committee on Banking and Currency,
Senate Office Building, Washington, D. C.

DEAR SENATOR CAPEHART: At the conclusion of the testimony of Mrs. Tress Salmon in the matter of the special interview to investigate Federal Housing Administration, held in Washington, D. C., on August 10, 1954, you asked if Mrs. Salmon could get for you the true names of the corporations and the presidents of chief principal owner of businesses on the list submitted to you as donors to the Tress Salmon Hospital Fund. She stated that she would try, and, as her attorney, I stated that I could get the names and addresses of the corporations, and if any of them had gone out of business we would try to find out who they were. No method was indicated at that time of the manner in which you desired us to transmit this information to you. We have, however, to the best of our ability, looked up the information you desire. It is as follows:

Contributor	Principal owners or officers	Company address (except where home indicated)
Bramford Co.....	Bill Schuhofer, L. M. Halper, Philip S. Eisen-drath, L. M. Robins.	241 South Robertson, Beverly Hills, Calif.
Hirsh Edmonds Building Co..	Harold Hirsh, Art Ed-munds.	246 South Robertson, Beverly Hills; phone Crestview 6-4347.
Overland Associates.....	Richard Diller, Irving Kals-man.	8549 Wilshire Blvd., Beverly Hills, Calif.; Bradshaw 2-3434.
Delaware Corp.....	Edward Zuckerman, Barn-ey Morris.	470 Beverly Dr., Beverly Hills, Calif.
Midland Investment Co.....	Al Lushing.....	450 Beverly Dr., Beverly Hills, Calif.; Crestview 4-5291.
Liberty Buliding Co.....	Sam Firks, Lou Towne, Feintech Bros. (2): Norman Feintech and Irving Fein-tech.	2209 Michigan, Los Angeles, Calif., or 321 South Beverly Dr., Beverly Hills, Calif.
Panorama Community Homes.	Fritz Burns.....	8530 Van Nuys Blvd., Sepulveda, Calif.
Carson Park Builders.....	Mark Boyar, Lou Boyar.....	6741 East Carson St., Long Beach, Calif.
Lakewood Park Construction Co.	Lou Boyar, Mark Taper, Ben Weingard.	P. O. 8145, Long Beach, Calif.
J. George Wright.....	Ed Krist.....	8715 Baring Corners, Los Angeles, Calif.
Happy Homes.....	Don Metz.....	900 South Long Beach, Compton, Calif.
David Salot.....	Bill Woodrow.....	8901 Wilshire, Beverly Hills.
Aldon Construction Co.....		1823½ West 45th, Los Angeles (home). 4622 St. Charles Pl., Los Angeles (home).

Mr. SIMON. Did you and your wife file joint income returns or community property tax returns?

Mr. SALMON. No; we signed joint returns.

Mr. SIMON. Joint returns?

Mr. SALMON. That is right.

Mr. SIMON. Thank you.

The CHAIRMAN. Thank you very much, Mr. Salmon.

We will stand in recess now until 2 o'clock, at which time we will reconvene. We have four witnesses, then, for this afternoon. The four witnesses will be Maurice Golden, Kenneth Mitchell, Kenneth Kadow, and Clinton Staples.

(Whereupon, at 12:07 p. m., a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will please come to order.

Our first witness will be Mr. Maurice Henry Golden, former FHA official.

Mr. Golden, will you be sworn, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF MAURICE HENRY GOLDEN, WEST LOS ANGELES, CALIF., ACCOMPANIED BY WILLIAM STRONG, COUNSEL

Mr. GOLDEN. I do.

The CHAIRMAN. Thank you, sir.

If you will give your full name and address to the reporter, and the gentleman who is with you?

Mr. GOLDEN. Maurice H. Golden, 10716 Cushdon Avenue, West Los Angeles.

The CHAIRMAN. And the gentleman with you is your attorney?

Mr. GOLDEN. My attorney, Mr. William Strong.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Golden, would you give the reporter your name and address, please?

Mr. GOLDEN. I did.

Mr. SIMON. And your age?

Mr. GOLDEN. Fifty.

Mr. SIMON. You are formerly the assistant chief construction examiner of FHA?

Mr. GOLDEN. That is right.

Mr. SIMON. How long have you been with FHA?

Mr. GOLDEN. Since 1938, I would say. Sixteen and a half years.

Mr. SIMON. In 1949 did Kalsman and Webber collect a fund which they gave to either you or your wife for the benefit of your daughter?

Mr. GOLDEN. I don't know who collected it, but it was spontaneously collected without my knowledge in the beginning, and it was set up as a trust fund for the hospitalization of my daughter, who was stricken with leukemia at the time.

Mr. SIMON. You say it was collected without your knowledge but do you know whether it was Diller and Kalsman that collected it?

Mr. GOLDEN. I can't say for sure. I think Mr. Kalsman was instrumental in it; yes.

Mr. SIMON. And he is a partner of Richard Diller's?

Mr. GOLDEN. That is right.

Mr. SIMON. Was the amount of that fund \$11,000?

Mr. GOLDEN. I think it was approximately \$11,000.

Mr. SIMON. As I understand it, you accounted to the FHA investigators for \$7,000 of that \$11,000 that was spent for your daughter; is that right?

Mr. GOLDEN. I gave them all the bills and the canceled checks to indicate that there is approximately that amount spent for, well, hospitalization, medical attention, and what not.

Mr. SIMON. The remaining \$4,000—was that deposited in your personal checking account?

Mr. GOLDEN. When my daughter passed away and there was no more need for the fund, I contacted several of the donors and explained to them that there was a residue and indicated my intention to return whatever contribution was made, and I did return some of the funds, and most of them, they said just forget about it.

Mr. SIMON. Then you deposited \$4,000 in your personal checking account?

Mr. GOLDEN. That is right.

Mr. SIMON. Out of that did you buy a Chevrolet for \$1,850?

Mr. GOLDEN. I would say \$1,800 some-odd, that is right.

Mr. SIMON. And your wife took a trip that cost about \$750?

Mr. GOLDEN. Well, she was in pretty bad state at that time, and, of course, the doctor advised that she go away and I think that is approximately correct.

Mr. SIMON. Now, I take it that you knew, or did you know that FHA regulations, shall we say, frowned on accepting gifts from people who did business with the FHA?

Mr. GOLDEN. Sir, I did not consider that a gift by any means.

Mr. SIMON. Wasn't it a gift?

Mr. GOLDEN. I don't consider it a gift.

Mr. SIMON. Did you pay taxes on it?

Mr. GOLDEN. It was set up as a trust fund.

Mr. SIMON. Isn't that a gift, Mr. Golden?

Mr. GOLDEN. I don't know what you call it.

The CHAIRMAN. Let me ask you this: Did you pay taxes on the \$4,000 that you put in your own pocket?

Mr. GOLDEN. No, sir. I did not report any of the medical expenses against it, either.

The CHAIRMAN. No; the \$4,000 that you put into your own personal account out of which you bought the automobile for \$1,850 and your wife made a \$750 trip. Did you pay taxes on that \$4,000.

Mr. GOLDEN. I don't think so.

The CHAIRMAN. Was it a gift?

Mr. STRONG. Isn't that a technical question?

The CHAIRMAN. Let him answer the question.

Did you treat it for tax purposes as a gift or as income?

Mr. GOLDEN. Well, I would say in my estimation right now I would say that it probably should be a gift. However, I am not sure, technically.

The CHAIRMAN. I am asking you. I don't care how you treat it. I want to know exactly how you did treat it. I don't care how you treated it. I wanted to know how you did treat it. You treated it as a gift?

Mr. GOLDEN. That is right.

The CHAIRMAN. Do you have any further questions?

Mr. SIMON. No, sir.

The CHAIRMAN. Any further questions?

Mr. STRONG. Senator, in connection with this matter, there was another spontaneous demonstration by some of the people connected with Mr. Golden and we would like to put on the record a statement that they gave us, dated August 30, signed by about 35 people working with him, if we may, Senator. This was not solicited by Mr. Golden. It is spontaneous, like the fund.

The CHAIRMAN. What was the purpose of this?

Mr. STRONG. They sent it to us. We didn't ask for it.

The CHAIRMAN. You didn't ask for it?

Mr. STRONG. No, sir. The first we knew about it was this morning when they said they had sent an original and three copies to Mr. Golden's home. By that time we were already down here. Somebody got a copy from the office itself. That is a signed copy with the original signature.

The CHAIRMAN. This is "To Whom It May Concern." It is signed by 25 or 30 people, fellow employees of yours in the FHA?

Mr. GOLDEN. Yes, sir. It is signed by my direct superior and fellow employees.

The CHAIRMAN. Who is your direct superior?

Mr. GOLDEN. Frederick Stott is chief architect.

The CHAIRMAN. Let me ask you this: Did you have any feeling in respect of accepting this money from builders who were doing business with FHA?

Mr. GOLDEN. Senator, I thought it was the most wonderful thing that ever happened to me, and I don't know what I would have done if it hadn't come about.

The CHAIRMAN. Do you think it is perfectly legitimate as a Federal employee to accept gifts from people with whom you are doing business?

Mr. GOLDEN. Under the circumstances, I thought this was a wonderful thing, particularly when it has been my understanding—it was at the time, and all these years—that it was sanctioned by Washington. I have never been told that—in fact——

Mr. SIMON. You say Washington approved this?

Mr. GOLDEN. This letter?

Mr. SIMON. No, this money.

The CHAIRMAN. Did Washington approve this \$11,000?

Mr. GOLDEN. It has been my understanding that the trust fund was; Washington was notified.

Mr. SIMON. Who in Washington was notified?

Mr. GOLDEN. I don't know, sir.

Mr. SIMON. Who notified them?

Mr. GOLDEN. I think there was a discussion in Mr. McGovern's office, and I believe that—the fact of the matter is that many of the people in the FHA office knew about it.

Mr. SIMON. Who told Washington about it, and who did they tell in Washington?

Mr. GOLDEN. I don't know, sir. I imagine they would check with the zone commissioner in Washington.

Mr. SIMON. Do you know whether they checked with the zone commissioner and, if so, who checked with the zone commissioner?

Mr. GOLDEN. I was told, and it has been my impression all these years, that it was O. K.'d by Washington.

Mr. SIMON. Who in Washington O. K.'d it, and who asked them to O. K. it?

Mr. GOLDEN. I am sorry, I don't know.

The CHAIRMAN. Who told you here it was O. K.'d in Washington?

Mr. GOLDEN. Many people. It was an impression in the office. There was no question about it.

The CHAIRMAN. Is this common practice in this office in Los Angeles to accept gifts from builders that are doing business with the office?

Mr. GOLDEN. Common practice? I would say not, sir.

The CHAIRMAN. You have got 25 or 30 people signed this; evidently seemed to think it is perfectly all right.

Mr. GOLDEN. I believe they mean to testify to my integrity and the wonderful record I have with the Administration which I am very proud of.

The CHAIRMAN. Did they know when they signed this that you had taken this \$11,000 and taken \$4,000 of it to your own account?

Mr. GOLDEN. I don't know what they knew. I am pretty sure that almost everybody in the office knew about the trust fund.

The CHAIRMAN. Is it common practice in the office in Los Angeles for FHA employees to accept gifts and moneys and gratuities from FHA builders?

Mr. GOLDEN. I don't think so, sir.

The CHAIRMAN. Is this the only gratuity you have ever accepted from them?

Mr. GOLDEN. Well, Christmas presents.

The CHAIRMAN. How many Christmas presents would you get?

Mr. GOLDEN. I don't know. In the past several years, since the industry was notified——

The CHAIRMAN. What do you mean industry notified?

Mr. GOLDEN. Some time ago a letter was sent out to a number of builders notifying them that the Christmas gifts should not be sent to the employees, and since that time I don't know of any that were sent into the office.

The CHAIRMAN. You know of no instance, then, where an FHA employee in Los Angeles received any gratuities or money?

Mr. GOLDEN. I don't know, sir.

The CHAIRMAN. Other than this \$11,000 fund that was made available for you?

Mr. GOLDEN. That is right.

Mr. STRONG. It was made available for his daughter's illness.

Mr. GOLDEN. For my daughter; not for me.

The CHAIRMAN. Your daughter's use.

How old was your daughter?

Mr. GOLDEN. She was 8 years old.

The CHAIRMAN. You wrote out the checks?

Mr. GOLDEN. No; this trust fund was set up with my wife as trustee.

The CHAIRMAN. Your wife was made the trustee?

Mr. GOLDEN. Yes.

The CHAIRMAN. Your wife gave you a check for \$4,000 out of this fund. That was a personal check?

Mr. GOLDEN. That is right.

The CHAIRMAN. You put that in your own bank account and spent for your own personal use?

Mr. GOLDEN. Well, I returned some of the donations that friends of mine had made, and used it—

The CHAIRMAN. Do you have the names of the builders that made contributions?

Mr. GOLDEN. I gave the list to the investigators. I may have it here. I had a copy of it.

The CHAIRMAN. May I see that?

Mr. GOLDEN. In fact, I have all of the information here, if you want it.

The CHAIRMAN. I just want to see a list of the builders that made a contribution.

Mr. GOLDEN. I gave it to the investigators.

The CHAIRMAN. You didn't give it to our investigators. Maybe you gave it to the FHA people themselves.

Mr. GOLDEN. The HHFA.

The CHAIRMAN. Yes. You don't have a copy of it. Did you see the list or listen to the list I read this morning of this other fund?

Mr. GOLDEN. Yes, sir.

The CHAIRMAN. Would you say it is pretty much the same builders?

Mr. GOLDEN. No. I would say the greater percentage were not builders, sir. They were workmen on the job, etc.

The CHAIRMAN. Who did you say collected the fund?

Mr. GOLDEN. I think that Mr. Kalsman—

The CHAIRMAN. He is a partner of Mr. Diller?

Mr. GOLDEN. Yes.

The CHAIRMAN. Mr. Diller being the gentleman that is sick and had the doctors testify this morning?

Mr. GOLDEN. Yes.

The CHAIRMAN. That is the same Mr. Diller?

Mr. GOLDEN. Yes.

The CHAIRMAN. Any questions?

If not, thank you very much.

Mr. STRONG. May that letter go into the record, sir?

The CHAIRMAN. Yes. Without objection, it may be made a part of the record.

(The letter referred to follows:)

LOS ANGELES, CALIF., August 30, 1954.

To Whom It May Concern:

We, fellow employees with Maurice H. Golden in the architectural unit of the Federal Housing Administration, Los Angeles, understand that he has been placed on involuntary annual leave. We have known him intimately for periods up to 16 years. We believe that he has always explicitly followed Federal Housing Administration requirements, rules and regulations applicable to his work, and we have implicit confidence in his honesty, integrity, and ability. We make this statement voluntarily and without any suggestion of any kind on the part of Mr. Golden that such a statement be made.

Frederick Scott, chief architect; Raymond P. Sundorff, John E. Kilnowitz, R. Ritchie, Wm. H. Ashton, Jack Christensen, Ralph Kime, Ronald Black, George A. Miller, John T. Robertson, E. H. Loeffler, W. J. Tanner, Chas. S. Phillips, O. R. Hobb, Ralph W. Luida, M. E. Hahn, Jewell Hicks, Maynard Bledsoe, Lloyd B. Hamilton, George J. Davis, E. H. Cline, Mary J. Hill, Margaret F. Brownie, Maxine S. McLellan, Sara G. Hershfield, Charles K. Hartman, Harry G. Marsh, John L. Borres, N. Bledgett, C. M. Poole, Neil H. Gates, G. S. Bjorlie, Dan Ferguson, S. E. Ionec, Sidney Coolidge.

Mr. STRONG. May the witness be excused?

The CHAIRMAN. You may be excused?

Our next witness will be Mr. Kenneth F. Mitchell, of Los Angeles.

Mr. Mitchell, will you be sworn, please:

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF KENNETH F. MITCHELL, LOS ANGELES, CALIF.

Mr. MITCHELL. Yes, sir.

The CHAIRMAN. Thank you, sir.

Will you be seated and give your name and address to the reporter.

Mr. MITCHELL. My name is Kenneth F. Mitchell. I live at 2129 Beverwil Drive, Los Angeles.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Mitchell, what is your age?

Mr. MITCHELL. I am 49.

Mr. SIMON. Did you buy a house from Mr. Diller that you now live in?

Mr. MITCHELL. Yes, sir.

Mr. SIMON. When did you buy it?

Mr. MITCHELL. 1949.

Now, Mr. Simon, may we read—if your questions are going to be a parallel on the testimony we gave yesterday so that we are in accord, may I check?

The CHAIRMAN. Let us just answer the questions. Your testimony today ought to be the same as it was yesterday.

Mr. MITCHELL. That is why I would like to refer to the statement.

Mr. SIMON. The facts haven't changed yesterday to today?

Mr. MITCHELL. No, sir.

Mr. SIMON. How much did you pay for the house?

Mr. MITCHELL. \$11,400.

Mr. SIMON. Do you know how much your neighbor next door paid for his house?

Mr. MITCHELL. I do not know.

Mr. SIMON. You do not?

Mr. MITCHELL. I do not know.

Mr. SIMON. I am sorry——

Mr. MITCHELL. No.

Mr. SIMON. You do not know?

Mr. MITCHELL. No.

Mr. SIMON. Do you know how much the neighbor on the other side paid for his house?

Mr. MITCHELL. No.

Mr. SIMON. Are they substantially comparable houses?

Mr. MITCHELL. No.

Mr. SIMON. What is the difference between your house and the house next door on either side of you?

Mr. MITCHELL. The house I live in has a concrete slab floor construction. It does not have a fireplace.

Mr. SIMON. What in your opinion was the value of your house on the day you bought it?

Mr. MITCHELL. In my opinion, not being a valuator, I can only state that it would be worth what I paid for it.

Mr. SIMON. What in your opinion was the value of the houses on either side of you on that same day?

Mr. MITCHELL. I wouldn't have any idea, because I know nothing about valuation.

Mr. SIMON. Do you see any reason why you should buy your house \$5,000 cheaper than the houses on either side of you?

Mr. MITCHELL. I only bought the house as per the seller's purchase offer, \$11,000.

The CHAIRMAN. Who sold you the house?

Mr. MITCHELL. Richard Diller.

The CHAIRMAN. Mr. Diller sold you the house?

Mr. MITCHELL. Yes, sir.

Mr. SIMON. In other words, you went to him, told him you wanted to buy a house, and he told you it would cost you \$11,500?

Mr. MITCHELL. That is correct—\$400.

Mr. SIMON. \$11,400?

Mr. MITCHELL. That is correct.

Mr. SIMON. The fact the other houses in the neighborhood were \$16,000 and \$16,500 you didn't know about then and you don't know about it now; is that correct?

Mr. MITCHELL. Only since talking with you yesterday, I was not aware of the price of the houses.

Mr. SIMON. Did you make any effort when you bought this house to find out what Mr. Diller was selling other comparable houses for?

Mr. MITCHELL. No, sir.

Mr. SIMON. So you wouldn't know then whether you were getting a bargain when you bought this house for \$11,400?

Mr. MITCHELL. I only bought the house at the selling price he offered it to me at which was \$11,400.

Mr. SIMON. And you made no effort to find out whether he was giving you a special price because you were with FHA?

Mr. MITCHELL. I only bought the house for \$11,400. There was no discussion of it.

Mr. SIMON. Did you make any effort to find out whether that was the regular price, or whether that was a special price for an FHA employee?

Mr. MITCHELL. My wife and I decided that we wanted to buy that house.

Mr. SIMON. I understand that, but my question is whether you made any effort to find out whether that was the regular price or whether that was a special price for an FHA employee?

Mr. MITCHELL. I asked for no special consideration.

Mr. SIMON. You still haven't answered my question.

Mr. MITCHELL. Then I am not clear with your question. Will you state it slower, please?

Mr. SIMON. My question is whether you, Kenneth Mitchell, made any effort to find out whether that price of \$11,400 was the regular price the seller was charging anybody else for a comparable house?

Mr. MITCHELL. I made no special—

Mr. SIMON. Or whether that was a special price for an FHA employee?

Mr. MITCHELL. As I remember—this was 5 years ago—that was no special price to me.

Mr. SIMON. That is not my question. My question is, Whether you made any effort to find out.

Mr. MITCHELL. I made no special effort to find out; no, sir.

Mr. SIMON. Why do you say "special"? Did you make any kind of an effort?

Mr. MITCHELL. No. I am still trying to interpret the meaning of your question, Mr. Simon.

The CHAIRMAN. Is your testimony going to be that you did not know that you were getting for \$11,400 what other people were paying \$15,000 and \$16,000 for?

Mr. MITCHELL. Senator, as I stated, I didn't know what the houses around me were being sold for. That was Mr. Diller's price, and my own personal reaction is I made a good buy.

The CHAIRMAN. How long have you been with FHA?

Mr. MITCHELL. Ten years.

The CHAIRMAN. What was your position there?

Mr. MITCHELL. My position prior to 4 years ago was a land-planning consultant, which is an error here, if this goes in the record. They call me a chief lamplighter.

The CHAIRMAN. Chief what?

Mr. MITCHELL. Lamplighter.

The CHAIRMAN. That is not right; is it?

Mr. MITCHELL. No, sir. So I would like to have that corrected.

The CHAIRMAN. What do you want it to say instead of lamplighter?

Mr. MITCHELL. Land planner, l-a-n-d p-l-a-n-n-e-r.

The CHAIRMAN. That is a typographical error on the part of the reporter.

Mr. MITCHELL. Consultants. Four years later, when they reorganized the office, I became chief land-planning consultant with the Los Angeles and Long Beach offices.

The CHAIRMAN. How long has there been this practice of selling FHA employees in the Los Angeles office houses at lesser prices than the regular customers? How long has that been going on?

Mr. MITCHELL. I wouldn't know. This is the first home I have ever bought.

The CHAIRMAN. Do you know of any other FHA employees who bought homes at a much lesser figure than they were being sold to the regular customers?

Mr. MITCHELL. The testimony this morning indicated that—

The CHAIRMAN. Mr. Salmon's testimony?

Mr. MITCHELL. Yes.

The CHAIRMAN. Do you know of any others?

Mr. MITCHELL. No, sir.

The CHAIRMAN. You think you and he were picked out as favorites?

Mr. MITCHELL. I went to Mr. Diller to buy the house from him.

The CHAIRMAN. I see.

Mr. MITCHELL. Mr. Diller did not come to me.

The CHAIRMAN. Did you just say "I will give you \$11,400 for this house"?

Mr. MITCHELL. What was that price?

The CHAIRMAN. Was it \$11,400?

Mr. MITCHELL. Yes.

The CHAIRMAN. Did you say to Mr. Diller "I will give you \$11,400 for this house"?

Mr. MITCHELL. No, sir. I asked what he would sell it to me for.

The CHAIRMAN. You still stick to your story, you didn't know the houses on either side of you, which were the same, except for the floors, were selling for \$15,000 or \$16,000?

Mr. MITCHELL. I stated, when you asked me the question, they were not the same houses except for the floors. Mine does not have a fireplace.

The CHAIRMAN. Other than the floors and fireplace?

Mr. MITCHELL. That is right.

The CHAIRMAN. Why did this particular house not have a fireplace?

Mr. MITCHELL. That I don't know.

The CHAIRMAN. Did all the other houses have fireplaces?

Mr. MITCHELL. I am not positive of that at the time.

The CHAIRMAN. Did the two houses adjoining you have fireplaces?

Mr. MITCHELL. Yes, sir.

The CHAIRMAN. Why do you think this one did not have a fireplace?

Mr. MITCHELL. I wouldn't know.

The CHAIRMAN. Why did this one have concrete floors, did you say? I thought concrete floors were quite the thing out here.

Mr. MITCHELL. I think you will find the majority of concrete slab floors in Arizona.

The CHAIRMAN. I thought they were getting to be quite the go here. Any other questions?

Mr. KENNEY. Was the purchase of this house financed through FHA?

Mr. MITCHELL. In the purchase of this house, I made a down-payment and assumed a title trust deed.

Mr. KENNEY. That is conventional financing?

Mr. MITCHELL. Sir?

Mr. KENNEY. Is that FHA financing?

Mr. MITCHELL. Yes. I have an FHA loan on this house.

Mr. KENNEY. Did you apply for FHA approval of this transaction?

Mr. MITCHELL. No, sir.

Mr. KENNEY. That is all.

The CHAIRMAN. Did you say it did have an FHA mortgage on it?

Mr. MITCHELL. Yes, sir. I assumed the title trust deed. I think that is the phraseology.

That is correct?

Mr. KENNEY. That is right. The property was already financed. You assumed the deed of trust that was already on there?

Mr. MITCHELL. I am not positive. I think that is what I did; yes, sir. In my knowledge, I assumed the title trust deed, as I stated before.

Mr. KENNEY. Thank you.

The CHAIRMAN. Thank you very much.

Mr. MITCHELL. May I be excused. Senator?

The CHAIRMAN. You may be excused, yes.

Our next witness will be Mr. Kenneth Kadow, of Juneau, Alaska.

Mr. Kadow, will you be sworn, please.

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF KENNETH KADOW, ANCHORAGE, ALASKA

Mr. KADOW. Yes, sir.

The CHAIRMAN. Thank you, sir.

Will you be seated and give your full name and address to the reporter?

Mr. KADOW. My name is Kenneth J. Kadow. My current address is Turnagain-by-the-Sea, Anchorage, Alaska.

Mr. SIMON. Mr. Kadow, what is your age?

Mr. KADOW. I am 46.

Mr. SIMON. Were you with the Department of the Interior prior to 1950?

Mr. KADOW. Prior to 1951; yes, sir.

Mr. SIMON. During what period were you with the Department of the Interior, and what were your duties?

Mr. KADOW. I was with the Department from about July 1948 to March 15, 1951. I was the Secretary's representative in Alaska.

Mr. SIMON. Were you the chairman of the Field Committee?

Mr. KADOW. Yes, sir.

Mr. SIMON. What were your duties in Alaska?

Mr. KADOW. My duties were to coordinate the functions of the Interior Department agencies, of which there were 12, into a coordinated Interior Department program and to coordinate it with other Department activities.

Mr. SIMON. Is it a fair statement, Mr. Kadow, that when you were up there you did everything you could to help builders get financing

for homes, even to the point of going to New York lenders to get financing?

Mr. KADOW. Yes. I would say I did everything in my power to assist in the housing program, every way possible.

Mr. SIMON. And that included getting the financing for the builders whenever you could?

Mr. KADOW. I did that on a few occasions; yes, sir.

Mr. SIMON. When did you resign from the Department of the Interior?

Mr. KADOW. January 25, 1951, I resigned in writing. As early as April or May of 1950 I asked to be relieved, and was given assurance that I could be relieved as soon as they got a replacement. I was also given the right to contemplate what my next move would be.

Mr. SIMON. You resigned in January 1951. Was that effective March 15, 1951?

Mr. KADOW. Well, originally it was effective on March 31, but then I changed it and asked for 2 weeks' earlier leave.

Mr. SIMON. So you did leave March 15, 1951?

Mr. KADOW. Yes, sir.

Mr. SIMON. During the 6- or 8-month period prior to March 15, 1951, did you discuss with builders up in Alaska the kind of a deal you might make with one of them for yourself?

Mr. KADOW. Well, I don't think that is a fair way of putting it, Mr. Simon. I talked to many builders about the possibility of joining them when I got out of the Government, and I think in general I had an understanding with 2 or 3 of them that they were interested in me, and that something might be worked out. No details of the arrangements were discussed, however.

Mr. SIMON. Didn't you actually go to work for the Nells Mortonson Co. on March 16, 1951?

Mr. KADOW. Yes, sir.

Mr. SIMON. That was the day after you left the Government?

Mr. KADOW. That is right.

Mr. SIMON. Hadn't you made your arrangements with them previously?

Mr. KADOW. I talked to them seriously about it in January 1951, on my way to Washington, which was the time I was resigning. I had a pretty firm understanding with them about, I would say, the last couple of days in April, or in February, or the first few days of March, and then on the 16th I went to work for them.

Mr. SIMON. On July 31, 1954, when you were questioned in Washington, weren't you asked this question:

Question. You had shopped around with these contractors?

Answer. Yes. I had talked to lots of different ones to see if any one of them was interested in the proposition I was trying to work out.

Mr. KADOW. Well, that is a fair statement, I would say, yes.

Mr. SIMON. What was the proposition you were trying to work out?

Mr. KADOW. I wanted to stay in Alaska. I enjoy Alaska, and it has, in my opinion, some of the greatest development opportunities in the world, and that is what I like to do, so I was interested in the possibility of becoming a development arm or development wing of those companies. As I say, we talked in generalities. Nothing was consummated in any case at all.

Mr. SIMON. What was your deal with the Nells Mortonson Co. when you went to work for them on March 16, 1951?

Mr. KADOW. The deal I finally consummated was one in which I was to stay in Alaska and represent them in Alaska, and to promote any kind of developments that I could that would afford them and myself an opportunity for capital gains instead of salaries.

Mr. SIMON. Was your deal \$1,000 a month plus 25 percent of the projects?

Mr. KADOW. No, sir. That \$1,000 a month was simply a draw.

Mr. SIMON. They were to pay you or advance you \$1,000 a month; is that right?

Mr. KADOW. If I asked for it; yes.

Mr. SIMON. Did you ask for it?

Mr. KADOW. I did, for the first several months, because that was my only source of income at that time.

Mr. SIMON. Then you had 25 percent interest in the projects; is that right?

Mr. KADOW. Yes, but this \$1,000 a month came from that 25 percent, and it should be so stated.

Mr. SIMON. What were the projects that you and they initiated up in Alaska?

Mr. KADOW. Well, the only one that I have initiated and have put through under my own steam, I would say, was Turnagain Homes, Inc.

Mr. SIMON. Do you have a 25-percent interest in that?

Mr. KADOW. I have a 20-percent interest in it.

Mr. SIMON. What about Island Homes, Inc.; do you have an interest in that?

Mr. KADOW. Not as such. I have an interest in the Mortonson's interest.

Mr. SIMON. What is the Mortonson's interest in Island Homes, Inc.?

Mr. KADOW. Sixty-four percent.

Mr. SIMON. You have 25 percent of that?

Mr. KADOW. Yes, sir.

Mr. SIMON. Are each of those companies building FHA insured homes in Alaska?

Mr. KADOW. Yes, sir.

Mr. SIMON. Were you successful in getting the Alaskan Housing Authority to pay \$300,000 toward putting in improvements on the property on which these homes were being built?

Mr. KADOW. I was successful—which one are you talking about now?

Mr. SIMON. You tell me.

Mr. KADOW. The Alaska Public Works, which was created for that very purpose, and it is a part and it functions in both of these projects; yes.

I assisted in later stages on Island Homes, and did most of the work on Turnagain Homes.

Mr. SIMON. How much money does the Alaska Housing Authority or the Alaska Public Works spend for improvements on these properties?

Mr. KADOW. In the neighborhood—I am just guessing now—but in the neighborhood of \$600,000 on each of them. I take that back.

The latter one is not. The latter one is \$220,000 or \$300,000. The first one is around \$600,000.

Mr. SIMON. About \$820,000?

Mr. KADOW. Roughly, yes.

Mr. SIMON. That is public money going in to build sewers and streets on this property in which your companies are building houses; is that right?

Mr. KADOW. Yes; that is a correct statement.

Mr. SIMON. Are you also associated with the United States Tin Co.?

Mr. KADOW. I was, until McCarthy got me fired.

Mr. SIMON. How many shares of stock did you own in United States Tin Co.?

Mr. KADOW. Now, you mean?

Mr. SIMON. Yes.

Mr. KADOW. 265,000.

Mr. SIMON. How much did you pay for that 265,000 shares?

Mr. KADOW. \$19,000.

Mr. SIMON. What is the business of the United States Tin Co.?

Mr. KADOW. Producing tin, on the Seward Peninsula.

Mr. SIMON. How much capital was contributed to United States Tin Co. by the stockholders?

Mr. KADOW. I can't answer accurately, but in the form of loans, and purchase of stock, I would say on the order of \$100,000 or \$125,000 or \$130,000.

Mr. SIMON. How much of that was stock and how much was loans?

Mr. KADOW. You asked how much money?

Mr. SIMON. Yes.

Mr. KADOW. I don't know the answer to that, but just a shotgun estimate, I would say 80 or 90 was stock and the rest was loans.

Mr. SIMON. Eighty or ninety thousand dollars in stock?

Mr. KADOW. And the rest in loans.

Mr. SIMON. And \$20,000 to \$30,000 in loans—\$20,000 to \$40,000?

Mr. KADOW. No; it would be \$60,000 to \$70,000.

Mr. SIMON. I thought you said \$100,000 to \$125,000 first.

Mr. KADOW. I think it is more than that. I think it is around \$150,000.

Mr. SIMON. About \$150,000.

Mr. KADOW. I am guessing at these answers. I am not prepared to give them accurate.

Mr. SIMON. How much Government money went into it?

Mr. KADOW. About \$2,300,000, I would say.

Mr. SIMON. The stockholders put up in both loans and stock somewhere between \$100,000 and \$150,000; is that right?

Mr. KADOW. That is correct.

Mr. SIMON. And the Government advanced them in loans \$2,300,000?

Mr. KADOW. That is about right; yes, sir.

Mr. SIMON. How much did you take out of it in salary?

Mr. KADOW. About \$22,000 all told, for nearly 30 months' work.

Mr. SIMON. When did you make your connection with United States Tin Co.?

Mr. KADOW. When did I make it?

Mr. SIMON. Yes.

Mr. KADOW. You mean originally?

Mr. SIMON. Yes.

Mr. KADOW. The first contact I ever had with anyone in the tin company was made in late January 1951.

Mr. SIMON. You were still in the Government, then?

Mr. KADOW. That is correct.

Mr. SIMON. And you actually went to work for them on April 1, 1951?

Mr. KADOW. That is correct.

Mr. SIMON. Do you know about the West Juneau Co.?

Mr. KADOW. Yes, sir.

Mr. SIMON. They owned some lots up in Alaska, didn't they?

Mr. KADOW. That is correct.

Mr. SIMON. And a year or 2 years prior to the time you left the Government, had the Alaska Housing Authority taken an option on some of those lots at \$800 a lot?

Mr. KADOW. I don't think it would amount to an average of \$800. It would be an average of about \$600. I would say.

Mr. SIMON. The Alaska Housing Authority had taken an option to buy some of those lots?

Mr. KADOW. That is right.

Mr. SIMON. For about \$600 a lot?

Mr. KADOW. I would say on an average, yes.

Mr. SIMON. Did they pay anything for the option?

Mr. KADOW. I can't answer that. I had nothing to do with the option. I would imagine that if they did it was a very small token payment.

Mr. SIMON. Prior to the time you left the Government did Alaska Housing Authority exercise that option on any of the lots?

Mr. KADOW. No, sir; not to my knowledge.

Mr. SIMON. After you left the Government did you sign a contract with the West Juneau Co. to give you a commission of \$200 for each of those lots that were sold, regardless of who sold them?

Mr. KADOW. I have a management contract dated April 1, 1951, signed by the president of that company, for the purpose of managing its affairs in Juneau, and that is one of the provisions of it; yes, sir.

Mr. SIMON. And that contract which was signed right after you got out of the Government says that you get a commission—\$200 was it a lot?

Mr. KADOW. If the lot brings \$800; yes, sir.

Mr. SIMON. Regardless of who sold it?

Mr. KADOW. That is correct.

Mr. SIMON. Very promptly after that did the Alaska Housing Authority buy some 27 of those lots?

Mr. KADOW. I would say within a matter of 2 or 3 months they exercised their option, but the implication of your question is not right. I mean I did not personally exercise any influence on them to do so.

Mr. SIMON. Is the fact right?

Mr. KADOW. Yes.

Mr. SIMON. Were you paid \$4,200 by the West Juneau Co. as a commission on that sale?

Mr. KADOW. Yes, sir.

Mr. SIMON. What did you do to earn that \$4,200?

Mr. KADOW. I carried out the provisions of my contract.

Mr. SIMON. What did you do?

Mr. KADOW. I have been managing the company from April 1 to today.

Mr. SIMON. But you got that money within a couple of months after you left the Government?

Mr. KADOW. That doesn't make any difference. What difference does it make when you get the money? The contract calls for a commission on every lot sold, whether I sell it or not, and that one happened to be sold shortly after I left the Government.

Mr. SIMON. Let me ask you this: Has there been another lot sold since?

Mr. KADOW. There have been a good many of them sold under options but they haven't been picked up in full yet, and I don't get the commission until they are.

Mr. SIMON. Are these the only ones that have been sold, and paid for?

Mr. KADOW. They are the only ones that have been paid for in full, except lots which I personally purchased.

Mr. SIMON. Now, what did you do, if anything, to earn that \$4,200?

Mr. KADOW. I managed the company from April 1 forward.

Mr. SIMON. You earned this money in 2 months, didn't you?

Mr. KADOW. I can't see that that has any bearing on it, Mr. Counsel. It is the contract, and I went by the letter of the contract.

Mr. SIMON. I didn't ask you if it had any bearing. I asked you what you did.

Mr. KADOW. I managed the company. I have taken care of it in all details since that date.

Mr. SIMON. What did you actually do?

Mr. KADOW. Kept record of its books.

Mr. SIMON. In that 2 months' period what did you do to earn the \$4,200?

Mr. KADOW. I managed its books, managed its property.

Mr. SIMON. What property did you handle?

Mr. KADOW. I handled 170 acres they own.

Mr. SIMON. What did you do in this 2 months' period about handling it?

Mr. KADOW. You do just whatever came up in the 2 months. I don't recall.

Mr. SIMON. What came up?

Mr. KADOW. Some problems came up in connection with water.

Mr. SIMON. What were they?

Mr. KADOW. That I had to work out. We had to have water on the darned thing. We were working on that, trying to consummate that. I went to the Forestry Department.

Mr. SIMON. This is all in that 2 months after you got out of the Government?

Mr. KADOW. I did these few things I am telling you, not many. I set up a corporate record for it, which it never had before, and, in general, took over the management of the company. I can't recall now what I did in those 2 months. That is asking a little too much, I think.

Mr. SIMON. In July 1950, 9 months before you left the Government, did you have a conversation with the FHA Territorial director of Alaska about some FHA single-family houses?

Mr. KADOW. The Territorial director is not the FHA director.

Mr. SIMON. What was the position of C. C. Staples?

Mr. KADOW. He was the director of the Federal Housing Administration.

Mr. SIMON. For Alaska?

Mr. KADOW. That is right.

Mr. SIMON. For the Territory of Alaska?

Mr. KADOW. That is right.

Mr. SIMON. Wouldn't you call him the Territorial director of FHA?

Mr. KADOW. There is a director of Territorial housing, also.

Mr. SIMON. Not for FHA.

Mr. KADOW. No. I misunderstood your question.

Mr. SIMON. Did you have a conversation with Mr. Staples about July 1950 about some single-family houses?

Mr. KADOW. Yes; I would say I did.

Mr. SIMON. Were you trying to promote building some?

Mr. KADOW. I was asking Mr. Staples at that time—

Mr. SIMON. Let me ask you, first, where did this conversation take place?

Mr. KADOW. Originally, I think the first conversation I had with Mr. Staples was in his office.

Mr. SIMON. How many conversations did you have in that period with him?

Mr. KADOW. Two or three.

Mr. SIMON. Where did the other 1 or 2 take place?

Mr. KADOW. We had some further conversations on it in a coffee-shop.

Mr. SIMON. Will you tell us as best you can recollect what those conversations were?

Mr. KADOW. I would like to prefix anything I say about it by simply saying that I don't want anyone in this room to get the implication that I think Mr. Staples has done anything wrong, or I did anything wrong. I am saying that because the question is asked in such a way as to leave a false impression.

Mr. SIMON. I merely asked you, Mr. Kadow, for the conversation that you had with Mr. Staples.

Mr. KADOW. All right. I will tell you. I asked Mr. Staples if he wanted any section 203 housing in Alaska, and, if so, where, and he indicated quite clearly that he needed projects in Anchorage and Fairbanks, of rather substantial size.

The CHAIRMAN. You were with the Government then?

Mr. KADOW. I am asking him if there are any areas in which he wants projects.

The CHAIRMAN. At that time you were with the Department of the Interior?

Mr. KADOW. Yes, but I would like you to recall, Senator, that I was in the process of leaving and I figured on being out of the Government any day.

Mr. SIMON. But this is 9 months before you left?

Mr. KADOW. Well, that shouldn't have too much bearing on it, Mr. Simon.

Mr. SIMON. Is that right?

Mr. KADOW. It is about 9 months. I want to recall to your mind that I had asked to be relieved, and the Secretary had told me that I could be relieved as soon as he got a replacement, which I expected any day, and he also gave me the authority to discuss possible ways and projects which I might do in Alaska.

I wasn't asking Mr. Staples for any commitments. I was simply asking him whether or not he needed a housing program. As a matter of fact, I knew he needed one.

Mr. SIMON. Will you just tell us what the conversation was?

Mr. KADOW. The conversation boiled down——

Mr. SIMON. Not boiled down. Just give us everything you can remember that was said.

Mr. KADOW. I asked him if he wanted any section 203 projects and he said he did, and I asked him if I had the right kind of a program and the right kind of builders, if he would have any objection to my promoting such a program when I got out of the Government, and Mr. Staples said it would depend on who I was going to work with, and I told him I didn't know who I was going to work with at that time, but that it would be a responsible group or I wouldn't be working with them at all, and as a result of that general conversation, why, he said that I could—if I came in with the right kind of an outfit I could probably put together some housing for Anchorage and Fairbanks.

Mr. SIMON. Anything else?

Mr. KADOW. That is all I recall of that conversation at that time.

Mr. SIMON. Do you recall anything about bribery?

Mr. KADOW. I don't like the use of that word, Mr. Simon. I don't think it represents the true situation.

Mr. SIMON. I was wondering how you happened to forget that part of the conversation.

Mr. KADOW. Because I was talking about what took place in his office.

Mr. SIMON. There is another one in the coffeeshop; is that right?

Mr. KADOW. Yes. There was a conversation in a coffee shop, and Mr. Staples was talking to me about leaving the Government, one thing or another, and I asked him when he was planning to leave. He said he didn't know exactly, but it would probably be soon, and I got the impression that there might be something in his mind besides that, so I talked a while, and asked him if he wanted a job, and he said no, he didn't. Well, that conversation went on over a period of 2 or 3 days, as I recall it, and eventually, why, he indicated that he might settle for some cash, and we dickered about that, and I came up with a figure to see if that is what he had in mind, and that was—the figure was mentioned.

The CHAIRMAN. What was the figure?

Mr. KADOW. I mentioned a figure of \$100 a unit.

The CHAIRMAN. That you would pay to Mr. Staples?

Mr. KADOW. That was the tenor of the conversation, but I go back again to say that I think this was a cops and robbers deal.

Mr. SIMON. Just tell us what the conversation was.

Mr. KADOW. I don't think you get the truth if you just get the conversation, Mr. Simon.

Mr. SIMON. That is the question. The question is what you said to him and what he said to you.

Mr. KADOW. If you don't get the whole truth you will distort it.

Mr. SIMON. Take one thing at a time. You tell us what the conversation was.

Mr. KADOW. The conversation was just what I said, and that caused me quite a bit of concern.

Mr. SIMON. Have you told us everything that you can recall?

Mr. KADOW. I think so.

Mr. SIMON. That he said to you?

Mr. KADOW. That is the meat of it, yes.

Mr. SIMON. I don't want to know if it is the meat.

Mr. KADOW. I don't recall anything but the highlights. The highlights are what I just said.

Mr. SIMON. How many houses were you talking about?

Mr. KADOW. We were talking about some pretty good programs, 150 each.

Mr. SIMON. 150 houses each?

Mr. KADOW. Yes.

Mr. SIMON. In each project?

Mr. KADOW. Yes.

Mr. SIMON. How many projects were there to be?

Mr. KADOW. Two.

Mr. SIMON. You mentioned to him \$100 a house for 300 houses; is that right?

Mr. KADOW. I can't recall what the specific figures were, but it was \$100 a house. I don't remember how many units we were talking about, but we were talking about two big projects. That is for sure.

Mr. SIMON. The other day when we asked you if it was \$30,000, didn't you say it was more than that?

Mr. KADOW. I know the amount of the commitments that were involved would have been more; yes. I don't recall.

Mr. SIMON. The commitments would have been \$10 million? Were you talking about two \$5 million projects?

Mr. KADOW. I don't have a clear memory on the details of how big the projects were. We were talking about two good-sized projects, and I had in mind—I knew that the need was terrific, and I knew that I wasn't going to stay in Alaska unless I could tie up with a big outfit, so I naturally supposed it would be what the law allowed, and the law allowed \$5 million each. Actually we didn't build anything that big, ever.

Mr. SIMON. You said you had two conversations with him in the coffee shop?

Mr. KADOW. That is right.

Mr. SIMON. What was the second conversation?

Mr. KADOW. I just gave them to you as one.

Mr. SIMON. You have told us now everything you can recollect about that; is that right?

Mr. KADOW. I think that is the meat of that one, yes.

The CHAIRMAN. Let me ask you this: Did you offer Mr. Staples \$100 a house, or did he ask you to give him \$100 a house?

Mr. KADOW. In that conversation, Senator, I asked him if he wanted a job, and he said no, he didn't want a job. He would only be interested in cash. So then we dickered about what that was about, and I ended up I think by making the offer.

The CHAIRMAN. Then your testimony is he asked you for cash?

Mr. KADOW. He asked for cash, but he didn't state the amount. I think I stated that.

The CHAIRMAN. You stated the amount of \$100?

Mr. KADOW. Yes.

The CHAIRMAN. Did you actually offer him \$100 per house, then?

Mr. KADOW. In that conversation that is what took place; yes, sir.

Mr. SIMON. In April, 1951, did you have another conversation with him about these houses?

Mr. KADOW. Yes, that is right.

Mr. SIMON. Did you see him in between these periods?

Mr. KADOW. You mean to talk to him?

Mr. SIMON. Yes.

Mr. KADOW. No, not to my knowledge. I don't have any memory of having gone back to Mr. Staples until April 1951.

Mr. SIMON. What was the conversation in April 1951, and where did it take place?

Mr. KADOW. This conversation took place in Mr. Staples' office, and he told me that—I went over there on some business for Island Homes. They had sent up some papers, and I was supposed to take them over there and file them, which I did. Mr. Staples called me in his office. He told me that I had—he had just committed a big project at Anchorage to friends of mine, and that I might have had that project if I hadn't tried to bribe him. Well, I was quite shocked, and I said, "Well, C. C., you don't mean I tried to bribe you, do you?" He said "Exactly that is what I mean." And I said, "Well, my recollection would indicate the other way around." And he said, "Well, nobody is going to bribe me and I want you to know that." So he showed me a letter that he had written reporting this conversation to his Department.

Mr. SIMON. Do you know what the date of the letter was?

Mr. KADOW. No, unfortunately I don't, but I have a recollection that it was probably in November, but I don't know for sure. You said or somebody said it was in May of 1951. I am quite sure it was in 1950. The date registered at the time and it was, as I recall, about 3 months after the incident happened.

Mr. SIMON. What did he say to his Department in the letter he wrote?

Mr. KADOW. Well, he gave the report of this conversation just about the way it took place, but put most of the blame of it on me, which didn't surprise me any.

Mr. SIMON. What else was said at this April conversation?

Mr. KADOW. Well, after reading the letter, I shook his hand and told him I was very glad he had written it, and he wanted to know why I was so glad because he said he was sure the letter was going to get me in trouble, and I told him that I didn't think it would get me in trouble as much as get him out of trouble, and I told him then that I had reported the conversation a few days after it happened to my Department and to the FBI, and that I had not come back because of that.

Well, there was quite a discussion took place about that, and I realized then that Mr. Staples was probably acting on an impulse. As I told you in Washington, Alaska is a pretty rugged place to work in and anybody that does anything almost invariably gets charged with being a crook somewhere along the line.

Mr. SIMON. Let me ask you this—

Mr. KADOW. And both Mr. Staples and I had that kind of a reputation.

Mr. SIMON. What was your reputation for integrity in Alaska?

Mr. KADOW. Prior to going there it was one of the finest any man ever had.

Mr. SIMON. After you had been there a couple of years?

Mr. KADOW. After I had been there a couple of years it was pretty bad. It got to the point where you couldn't get any consideration from Interior Department unless you bribed me, and many people got that notion, and I know I heard the same thing about Mr. Staples. You had to bribe Mr. Staples to get anything, and I know my reaction when this conversation took place in the coffee shop, my reaction was, well, my God, here is some firsthand information, and I am going to find out about it, and I later discovered that that was probably Mr. Staples' reaction also, and both of us decided to play cops and robbers, and so we both went ahead.

The CHAIRMAN. You mean you were trying to find out who could bribe who and how much?

Mr. KADOW. I am perfectly satisfied that Mr. Staples is an honest man. I know of nothing against that, his reputation.

Mr. SIMON. Did you then suggest that you each write a letter to your respective superiors saying the other fellow was a nice fellow?

Mr. KADOW. Yes, sir.

Mr. SIMON. Did you write such a letter?

Mr. KADOW. Yes, sir.

Mr. SIMON. Did he refuse to write such a letter?

Mr. KADOW. I can't answer that, Mr. Simon. I just know that he promised to write it, and to send me a copy, and he never sent me a copy, so I don't know if he wrote it or not. It was immaterial to me, really.

Mr. SIMON. You can assume he didn't write it, can't you?

Mr. KADOW. That is what I assumed, yes, but I don't know that he didn't.

Mr. SIMON. Mr. Kadow, I have a carbon copy or a photostat of a carbon copy of a letter dated July 6, 1951, which purports to be from you to Cliff Mortonson, Nells Mortonson Co., Inc., 1021 West Lake Avenue N., Seattle 9, Wash.; I would like to read it and ask you if you wrote that letter at or about July 6, 1951.

It begins:

DEAR CLIFF: I am a little amazed at your comment from Bob Slater, that he can't see how I will earn my salt.

I might say you are now partners with Mortonson; is that right?

Mr. KADOW. Yes, sir; but Mr. Slater didn't know that, by the way.

Mr. SIMON. You and Mortonson were partners in this deal that became effective the day after you left the Department of the Interior?

Mr. KADOW. Yes, sir. I went to work for them then. Actually the

details of my contract with the Mortonsons took me a year and a half to work out.

Mr. SIMON. This was just a couple of months after you left Interior?

Mr. KADOW. Yes, sir.

Mr. SIMON (reading):

I am a little amazed at your current comment from Bob Slater that he can't see how I will earn my salt. I suppose this means he wishes to renege on his promise of stock. When Bob and Howard offered me 10 percent of the stock obtained in Island Homes by them, they did so according to the words of Bob and Howard "out of appreciation for what you already did for us." As Bob and Howard both know, it took a lot of fixing to get AHA, Alaska Public Works, and the Mortonsons to go on the Island Homes project with them. You, Nells, and Frank all said you did not want to associate with Bob until I convinced you that the arrangement was workable and could be good for all concerned. As I understand it, your group is also giving me some stock in Island Homes, Inc., not for what I will do in the future, which, by the way, might be plenty before this project is finished, but for what I already did. Bob has a damned short memory. If he is beginning to renege and forget at this point, he may need me many times in the future before he gets where he wants to. If his word isn't worth more than his comment to you suggests, I wouldn't want to work with him ever. I can do many things for Bob if I am a member of the ball team. If not, I will do them for others.

I always felt that Bob was a guy of his word and the same goes for Howard, but many people in Alaska tell me otherwise on Bob. I hope for Bob's sake they are wrong. He has his great chance now, and I have done much to bring it about. Furthermore, almost every week I spend time with someone, important or otherwise, trying to remove obstacles from the Island Homes project, and from Bob personally. This will continue in importance once the project really gets underway. Likewise, the stage is now being set by me so we can get all the breaks necessary to increase our project from present size to 370 when the time comes. If Bob doesn't think I am a worthwhile partner I will drop out now, but at the same time I will give him 10 to 1 odds he won't get the other 200 units when they are wanted. Too many details, such as getting mortgages when the mortgage market is shot, must be overcome. Only AHA can give a mortgage large enough to make the project go, and they don't have any money. I am working with Wilder, and my friends in the District of Columbia on that problem now. I am also laying plans so we can get money earmarked the minute it is available. Also, we don't have the public works commitment yet, but with time and contacts,—

and the words "time and contacts" underlined—

I will get them for next summer. I will be in Alaska soon, and I surely hope I get my stock from all concerned at that time. If such is not the case, I want to know it now. I know when the Mortonsons give their word that it is the same as their bond. If the same isn't true for Bob and Howard, I would sooner forget the whole affair and work with others as of now.

Best regards,

KENNETH J. KADOW.

Did you write that letter?

Mr. KADOW. Yes, sir.

Mr. SIMON. Going back again, it says at the beginning

I suppose this means he wishes to renege on his promise of stock. When Bob and Howard offered me 10 percent of the stock obtained in Island Homes by them, they did so,

and then you are quoting "they did so, according to the words of Bob and Howard 'out of appreciation for what you already did for us.'"

What does that refer to, they gave you 10 percent of the stock for what you had already done for them?

Mr. KADOW. Well, sir; in January, about the 6th or 7th—I am not precise on the date, but about then, Mr. Slater came to me in Juneau

and on the day that I was on my way to Washington and asked me if I would help him get a commitment. I told him——

Mr. SIMON. You were still with the Government then?

Mr. KADOW. I was with the Government, but I was on my way to Washington to resign. I told him that I had nothing more to do with housing; that I had specifically been asked by the Secretary not to take an active direct part in those promotions, and that I could not help him in the sense that I knew he wanted help.

However, I agreed to analyze the petition that he had submitted, and to try to find out why he wasn't getting one, because he had been turned down on a 50-unit deal.

Well, you didn't have to be very smart when you took a look at the application because Bob had just recently gone through bankruptcy. He had failed as a small contractor, and he owed a lot of debts, and the Alaska Housing Authority had simply refused to go where he was the major participant.

Mr. SIMON. Who is the Alaska Housing Authority?

Mr. KADOW. That is the Territorial agency for housing that I thought you had referred to earlier.

Mr. SIMON. And the Alaska Housing Authority is under the jurisdiction of the Department of the Interior?

Mr. KADOW. No, sir; it is not. It is a Territorial agency.

Mr. SIMON. Who is the headman there?

Mr. KADOW. Mr. Wilder is the headman.

Mr. SIMON. Is that Glen Wilder?

Mr. KADOW. Yes.

Mr. SIMON. Is he under the Governor of Alaska?

Mr. KADOW. Yes—no, he is not. He is under a board—I don't know what they call them, but a board of directors, let us say, which are appointed, and this board has independent authority over the program. The Governor has nothing to do with it directly.

Mr. SIMON. Who appointed the board?

Mr. KADOW. The Governor appoints them in the first instance.

Mr. SIMON. Who appoints the director of the Alaska Housing Authority?

Mr. KADOW. The board does.

Mr. SIMON. Who appointed the Governor?

Mr. KADOW. The President of the United States, with the approval of the Interior Department.

Mr. SIMON. The Governor of Alaska is responsible to the Interior Department; isn't he?

Mr. KADOW. Yes, but if your implication is I talked to the Governor about it, you are very mistaken. I never talked to Mr. Gruening about this at any time.

Mr. SIMON. Didn't you have a lot to do with Alaska Housing Authority when you were the Department of Interior representative in Alaska?

Mr. KADOW. I would say approximately a year before that—from the time I went to Alaska until the Alaska Housing Act was passed—and the first 5 or 6 big projects approved under it, I had taken an extremely active part. During that period one FHA Director died and another one came up on an interim basis, and it wasn't until some time after Mr. Staples came to Alaska that my interest in that work

diminished. From that time forward I only helped the ones that I had started to help, who still needed help, and those were in line with my instructions from Interior.

Mr. SIMON. At any rate, in January of 1951 you were some help to the Slaters?

Mr. KADOW. Not with the Government, sir. I had no contract whatsoever with the Government at that time on that project.

Mr. SIMON. Weren't they seeking FHA applications at that time?

Mr. KADOW. They were seeking approval for a mortgagee, and they were unable to get one. I believe I am correct in saying—

Mr. SIMON. They were seeking approval from the Government, though; is that right?

Mr. KADOW. From the Alaska Housing Authority, yes.

Mr. SIMON. Which is part of the United States Government, isn't it?

Mr. KADOW. Part of the Territorial government.

Mr. SIMON. Isn't that part of the United States Government?

Mr. KADOW. Yes; but I know what you are saying, Mr. Simon, and the answer is that it is a direct Territorial agency, independent of the Federal Government control, but they do operate in their larger sense with Housing and Home Finance funds.

Mr. SIMON. Aren't all the funds of the Alaska Housing Authority appropriated by the Federal Congress?

Mr. KADOW. No; not all of them, sir.

Mr. SIMON. Where do the rest of them come from?

Mr. KADOW. Some from the Territorial legislature and some from revenues.

Mr. SIMON. What part of the funds of Alaska Housing Authority are appropriated by the Federal Congress?

Mr. KADOW. I would say 95 percent, probably, or more.

Mr. SIMON. And who created the Alaska Housing Authority?

Mr. KADOW. Well, now, what do you mean by that?

Mr. SIMON. It was created by an act of Congress?

Mr. KADOW. Created by the United States. The Territorial government created the Alaska Housing Authority, but the Congress of the United States created the Alaska Housing Act which made the funds from the Federal Government available.

Mr. SIMON. In January of 1951 the Slaters were trying to get some applications approved by the Alaska Housing Authority; is that right?

Mr. KADOW. They were trying to get them to act as mortgagee, yes. They had already gotten, I think—as I recall it, they had gotten approval from FHA long before that.

Mr. SIMON. But they now needed approval from AHA?

Mr. KADOW. They needed a mortgagee. That is what they were trying to get.

Mr. SIMON. They wanted to get Alaska Housing Authority?

Mr. KADOW. It was the only one available, then, Mr. Simon.

Mr. SIMON. You were some help to them and they promised you 10 percent of the stock; is that right?

Mr. KADOW. I can't answer that that way. I did nothing in any way, shape, or form, in connection with the Island Homes project while I was in the United States Government, except to introduce, or to speak to the Mortonsons on behalf of Slater, and his partner.

Mr. SIMON. What was this 10 percent stock interest promised you for?

Mr. KADOW. You are talking about a time very much later than when I was in the Government. I had done quite a bit on it then, but long after I was out of the Government.

The CHAIRMAN. We will have a 5-minute recess at this point.

(There was a short recess taken.)

The CHAIRMAN. The committee will please come to order.

We will continue.

Mr. SIMON. Mr. Kadow, the next sentence in this letter reads as follows:

As Bob and Howard both know, it took a lot of fixing to get AHA—
which I take it means the Alaska Housing Authority—
Alaska public works, and the Mortonsons to go on with the Island Homes project.

What does that mean?

Mr. KADOW. Well, the word "fixing," to begin with doesn't mean that in the vernacular political sense. It is a standard word in my vocabulary which simply means doing, going out and working.

Mr. SIMON. That isn't the sense in which it appears to be used here. It says "as Bob and Howard know, it took a lot of fixing to get AHA."——

Mr. KADOW. Is there any reason why that can't mean working?

Mr. SIMON. It wouldn't make quite as much sense if you said as Bob and Howard know it took a lot of working.

Mr. KADOW. Use "doing" and you will have it exact.

Mr. SIMON. That doesn't fix it exactly.

Mr. KADOW. I can assure you the word "fixing" doesn't mean what you would like to have it mean.

Mr. SIMON. I wouldn't like to have it mean anything except what the facts are.

Mr. KADOW. The facts are these: I told you that Mr. Slater had a rather poor financial background. The project, I believe—I won't be able to say this for certainty, but I think that the FHA had made some kind of a tentative commitment on the houses Slater and Hollingsworth wanted to build. I could be wrong on that, but I think they did. Anyway, that would have been contingent upon coming up with a good mortgagee, and they couldn't get AHA. They came to me, and I told them what was the matter with it. I said, "This will never go unless you get a strong outfit to do it." I gave him the names of 3 or 4 large contractors, whom I knew, that were interested in doing housing in Alaska, and it is my understanding he went to Seattle and he talked to several of those men and some more than he knew on his own. He didn't succeed in getting any of them to commit, although a couple of them, I gather, had interest in it.

Then when I came back from Washington I talked to the Mortonsons on his behalf. The Mortonsons are very reputable, middle-sized corporation, have a very fine reputation over a long period of time, and I used my influence with them, whatever that may have been, to convince them that just because a man goes broke in Alaska that doesn't make a sinner out of him.

Now, an awful great number of the people who go into business in Alaska go broke because it is a tough place to operate.

Mr. SIMON. Whom did you convince of this?

Mr. KADOW. Of the Mortonson group.

Now, it is true that right at that time I was talking with the Mortonsons about joining them also, and finally they agreed to go with Slater and Hollingsworth, and, as I recall it, they made some kind of a deal where Slater and Hollingsworth, for their land and for the land option and the work they had done and everything else, were to get 40 percent and the Mortonsons were to get 60.

After this deal was consummated, about a month later, I was back in Seattle again, in late April or early May, and Slater told me then how happy he was with the arrangement, and how wonderful it was, and they wanted me to come in the project with them.

Mr. SIMON. That would explain, Mr. Kadow, the fixing that you did with the Mortonsons.

Now, will you explain to us the fixing you did with the Alaska Housing Authority and the fixing you did with Alaska Public Works?

Mr. KADOW. That is right. All right.

After about April—my dates here might be off a few days, but fundamentally this is the right period of time—when I was down in Seattle at that time, they talked about me joining the company. Then I went back to Alaska. I had pretty well thought the thing was all settled, and I went back to Alaska and went to work on my own. At that time the No. 1 problem was to get an APW application processed. There had never been one processed prior to this for this type of activity, although the act from Congress specifically stipulated that the most important consideration of the act was to produce housing, and so it took an awful lot of work there with the legal counsels of the Government, and with the legal counsel of the company. I called a big meeting in Juneau, at which Mr. Mortonson came up and the engineers from the corporation came up, and we worked a couple of weeks, working out how that application was to be filed, and what the details of it were. Then once that was done we had to meet with the Alaska Housing Authority. Slater, I think, held that meeting, as I remember it, but they had a meeting with them, getting them to agree that they would be the sponsor.

There was quite a bit of work that took place with AHA and APW in April, May, and June.

Mr. SIMON. Did you actually get 10 percent of the stock of Island Homes from the Slaters?

Mr. KADOW. I got 4 percent.

Mr. SIMON. Four percent of the stock?

Mr. KADOW. I got 10 percent of what they got, yes.

Mr. SIMON. They had 40 percent and they gave you 10 percent of their 40 percent so you had 4 percent of the stock in Island Homes; is that right?

Mr. KADOW. As I told you earlier, Counsel, I have—you are talking about a legal matter. I have no stock, as such, in Island Homes, but indirectly I own a quarter of 64 percent, which is in my mathematics 16 percent, but I got 4 percent of that—4 of that came into the Mortonson Co. through this arrangement with Mr. Slater and Mr. Hollingsworth.

Mr. SIMON. One, you had a deal with Mr. Slater to get 10 percent of his interest, and you had a deal with Mortonson to get 25 percent of their interest; is that right?

Mr. KADOW. Yes. I was kind of an adjunct to the Mortonson Co. I am not a partner in the true sense of the word, but I do participate with them in their Alaskan program.

Mr. SIMON. So you have 16 percent of Island Homes now?

Mr. KADOW. I again say I have no stock in Island Homes, but through their 64 I own one-quarter.

The CHAIRMAN. How much in cash did you pay for this stock?

Mr. KADOW. I didn't pay in cash for it, Senator.

The CHAIRMAN. You got it for services rendered?

Mr. KADOW. I got it in the arrangement with the Mortonson Co., which involves—it is a very involved arrangement. It involves my giving them three-quarters of everything I produce.

The CHAIRMAN. You say you got it through virtue of the influence that you might have upon the people that you knew in Alaska and in Washington?

Mr. KADOW. You mean the Island Homes' stock or the whole thing?

The CHAIRMAN. The whole thing.

Mr. KADOW. No. I wouldn't say that at all. I would say, sir, that I was an Alaskan, I knew my way around in Alaska, I knew the problems, I knew their development potentials. There was a company that wanted to do those things. I made a deal where three-quarters of everything I got, in salary, in stocks, in anything you want to name, three-quarters of what I got went to them.

The CHAIRMAN. And one-quarter of what they got came to you?

Mr. KADOW. Came to me.

The CHAIRMAN. You paid no cash for it?

Mr. KADOW. I paid cash for some of the stock. I bought stock in United States Tin.

The CHAIRMAN. I am talking about the housing.

Mr. KADOW. No, but they did. They put up a lot of money.

The CHAIRMAN. You got yours through virtue of the influence that you had on people?

Mr. KADOW. I don't think that is a fair way of saying it, Senator.

The CHAIRMAN. How would you say it?

Mr. KADOW. I would say I got it because I was a member of the Mortonson Co. and because my arrangement called for my getting it.

The CHAIRMAN. You mean you were going to render service for it? You were going to do something for it?

Mr. KADOW. Certainly. If you are asking me, was the knowledge that I had of Government operations and the people that I knew in Government, in private industry, a part of the consideration, I would say, without a doubt that it was, just like these ex-Senators that are attorneys in Washington. They do the same thing.

Mr. SIMON. Mr. Kadow, on the same day that you wrote Cliff Mortonson the letter that I have just read, did you write a letter to Robert Slater, as follows—this is July 6, 1951:

DEAR BOB: A few days ago I received a note from Cliff—

that would be Cliff Mortonson, wouldn't it?

Mr. KADOW. Yes, I would say so.

Mr. SIMON (continuing):

implying that you did not see what value I would be in the Island Homes project.

Mr. KADOW. That is correct.

Mr. SIMON (reading):

I suppose you have in mind not honoring the promise you and Howard made to give me 10 percent of the stock you received. As you know, the Mortonson group made me a similar offer. I sincerely hope I am jumping at wrong conclusions, but if not I want to know it now. I spent an awful lot of my time on the Island Homes project in general, and on you in particular. I haven't minded doing so, so long as I am on the ball team, but if I am not, I have other uses for my energies. Both you and Howard know that if I hadn't gone to work for you your project would never have come off with the Mortonsons. Also I can assure you that the Board at AHA was all set to block the deal if you had tried it alone. You already know that I helped you on these matters as well as many other things. I have always been of the impression that your offer of stock was in appreciation for services already rendered, rather than work yet to be done. Certainly that was Clif's attitude and yours at the time the offer was made. You have a long way to go yet, Bob, before you reach the goals you outlined to me. I helped you when it counted most, and will be needed many times before you get where you are headed. Don't ever forget that it takes a ball team to operate in Alaska, and it doesn't pay to change players when you get a winning combination.

Please let me know by return mail whether I am in or out of the Island Homes deal. I sincerely hope I owe you an apology for writing this letter, but if I don't I want to know it now.

Did you write that letter?

Mr. KADOW. I would say I did; yes, sir; Mr. Counsel.

What is the date of the letter, please?

Mr. SIMON. July 6, 1951.

Mr. KADOW. That is several months after I was out of the Government, I wish to remind you.

Mr. SIMON. Yes. And it says in here that "I have always been of the impression that your offer of stock," and the offer of stock was made in January 1951—

Mr. KADOW. No, sir.

Mr. SIMON. Wasn't it made at the hotel in Juneau?

Mr. KADOW. No, sir; absolutely not.

Mr. SIMON. When was the offer made?

Mr. KADOW. Made in late April or early May in Seattle.

Mr. SIMON. I understood you to say previously it was in January but even taking the April or early May date, it says here "I have always been of the impression that your offer of stock was in appreciation for services already rendered." Is that right?

Mr. KADOW. I don't think there is any argument there, Mr. Counsel. I have admitted that right along and my bone of contention here is that you must take into consideration that I left the Government March 15, and I did a great deal of work in April and in May and in June, and this letter was written in July.

Now, I don't think there is any sin in a man staying in Alaska and making his living at what he is good at. Now, the development business has been my business for many years. I worked—

Mr. SIMON. Even while you were working for the Government?

Mr. KADOW. Not to my own interests, sir. I can categorically state that I don't have 1 nickel, 1 cent, or 1 share of stock that has come by me while I was in the United States Government. I think my sense of public morality is as highly developed as any man in this room.

Mr. SIMON. You own 265,000 shares of United States Tin Co. stock.

Mr. KADOW. That is right.

Mr. SIMON. Which is about 95 percent financed with Government money loaned during the time you were in the Government.

Mr. KADOW. No, that is completely incorrect, sir.

Mr. SIMON. When did that money get up there?

Mr. KADOW. The moneys—the first loan was made, consummated on May 15, 1951. I had very little to do with that one. I did help some. The rest of it is all subsequent to that date, a matter of 2 or 3 years.

Mr. SIMON. You went with this company April 1, 1951, didn't you?

Mr. KADOW. Yes, but what has that got to do with it?

Mr. SIMON. Weren't the loan papers pending in the Department of the Interior prior to that?

Mr. KADOW. Yes, they were pending, and I have clearly established without any question of doubt that I had no knowledge that I would be with the United States Tin Co. until along about March. Then I had a pretty good notion. As a matter of fact, sir, the reason that I left the Government 15 days earlier was because the negotiations with the Mortonsons had been pretty clearly understood. The negotiations with the tin company were fairly well understood, and they were incompatible with my staying in the Government any longer. There were things to be done.

The CHAIRMAN. How much cash did you pay for this 265,000 shares of stock in the tin company?

Mr. KADOW. I paid \$19,000, as I recall, sir.

The CHAIRMAN. For the \$265,000 worth?

Mr. KADOW. It isn't that simple, Senator.

The CHAIRMAN. You purchased 265,000 shares?

Mr. KADOW. 8,500 shares were paid to me for services rendered from April 1 until October 1952. During that period my salary from the United States Tin Co. was \$2,400, and that in my book is approximately 18 months. For 18 months I worked for \$2,500, and 8,500 shares of stock, the stock of which I obtained when I joined the company. The upshot of the thing is that for the amount of work I did that was a very, very inexpensive arrangement. I can assure you.

After that date I drew a bigger salary.

Senator KUCHEL. May I ask a question, Senator?

The CHAIRMAN. Yes, Senator Kuchel.

Senator KUCHEL. When you speak of services rendered in the letters which you wrote, did you have in mind any services which you performed during the time that you were a Federal employee?

Mr. KADOW. No, sir; not at all, Senator, except the contact—except to help with the contact with the Mortonsons, which I don't consider improper at all.

Senator KUCHEL. To that extent, then, your answer is no, but in at least one instance, while you were a Federal employee, you assisted the people back at this Island Homes project in a way which you feel was perfectly proper?

Mr. KADOW. That is correct, Senator.

Senator KUCHEL. And which I take it your testimony was part of the duties which you had as a Federal employee?

Mr. KADOW. No.

Senator KUCHEL. In other words, could anybody come up there and ask you for that kind of help?

Mr. KADOW. You mean when I was out of the Government? When I was in the Government, prior to Mr. Staples coming to Alaska, I did a tremendous amount to promote housing. After that time I helped only those that I had started to help and who came back and called on me more.

Senator KUCHEL. The only thing I want to get straight is this—
Mr. KADOW. That was not part of my duties; no, sir.

Senator KUCHEL. And that is your testimony to this question, which is a little confusing to me. Either you did represent that what you did while you were a Federal employee constituted some type of quid pro quo for getting into the Island Homes project, or it didn't. Now—

Mr. KADOW. I am saying it did not.

Senator KUCHEL. All right. Then you are saying that the phrase "for past services rendered" were those services which were rendered between April and July of 1951?

Mr. KADOW. That is correct, sir. And I can go a step further. Now Mr. Slater contacted me, as I said, on the 6th or 7th of January. I was on my way to Washington, and I never returned to the Territory until about the 12th day of March, 1951. Now, these contacts that you are talking about are contacts in the Territory of Alaska, made with Alaska Housing Authority, and made with the Alaska Public Works in Juneau, and I physically was not there, so it just should be rather conclusive evidence that the contacts weren't made.

The CHAIRMAN. Mr. Kadow, you testified that Mr. Staples, who was the Alaska Housing Director, asked you for cash and that you offered him \$100 per house. Did you actually pay him any money?

Mr. KADOW. I never paid Mr. Staples anything, and Mr. Staples never had any further conversations with me on that until April.

Now, I want the record to clearly show that Mr. Staples did a tremendous job in Alaska, and I want—

The CHAIRMAN. I think the record speaks for itself.

Mr. KADOW. Because he had a tough job. He got this same reputation that I got. Now, I don't—

The CHAIRMAN. You testified that he actually asked you for cash. Did he actually ask you for cash?

Mr. KADOW. We had that conversation, and I also testified that I think he was playing cops and robbers with me, because why else would he have turned it in? Why did I turn it in?

The CHAIRMAN. In other words, he asked you for cash and you offered him \$100 a house?

Mr. KADOW. Yes.

The CHAIRMAN. But you never paid him any \$100?

Mr. KADOW. I never spoke to Mr. Staples officially again.

The CHAIRMAN. In other words, your testimony now is you think he was trying to find out whether you were a crook or not, and you were trying to find out whether he was a crook or not?

Mr. KADOW. I don't think there is any doubt about that. I don't think Mr. Staples has ever taken a bribe from anybody, although the rumor factory has it otherwise.

The CHAIRMAN. Thank you, sir.

Mr. KADOW. Am I free to go home now?

The CHAIRMAN. Yes, sir. You may go home.

Our next witness will be Mr. Staples.

Mr. Staples will you be sworn, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing by the truth, so help you God?

TESTIMONY OF CLINTON C. STAPLES, LAS VEGAS, NEV.

Mr. STAPLES. Yes, sir.

The CHAIRMAN. You may be seated.

Please give your full name and address to the reporter.

Mr. STAPLES. May I ask one favor?

The CHAIRMAN. Yes, sir.

Mr. STAPLES. If you have television I would prefer not to be on it.

The CHAIRMAN. We will certainly comply with your request to see that you are not on television. The television man will be happy to comply with your request. If you will give your full name and address to the reporter, please.

Mr. STAPLES. Clinton C. Staples, 2131 Paradise Road, Las Vegas, Nev.

The CHAIRMAN. Were you the Alaska FHA director?

Mr. STAPLES. I was the first director that was ever appointed to the Territory of Alaska.

The CHAIRMAN. How many years did you serve?

Mr. STAPLES. I arrived in Alaska in August of 1949, with the understanding that I would stay only for 2 years, and I left Alaska in July of 1951.

The CHAIRMAN. You say you did stay 2 years?

Mr. STAPLES. I spent 2 years.

The CHAIRMAN. You say you were the only director?

Mr. STAPLES. I was the first director they ever had.

The CHAIRMAN. There was an office there but you were the first director?

Mr. STAPLES. That is correct, sir.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Staples, I understand that during your stay as FHA director in Alaska, you had an operation in Seattle and in your case it turned out to be a little different with respect to the builders than that which we have heard of today.

Would you tell us about that, please?

Mr. STAPLES. Yes, sir.

I want to clear for the record that I have never had competent help given to me in the Alaska office as a chief underwriter or valuator or chief valuator, so that practically all of the processing had to be done through the Seattle office, or by Johnny Carter, being the fellow sent from the Seattle office to the Juneau office, so that I did have quite a number of occasions when I was given the authority to leave the Territory of Alaska to go to Seattle to consult with Mr. Jackson's office, who is the director—

The CHAIRMAN. He was the Washington State director?

Mr. STAPLES. He was the State director—and for about a year or so before I went to Alaska, I developed a hernia.

The CHAIRMAN. A hernia?

Mr. STAPLES. A hernia, and I had made several trips to Alaska, the Gulf of Alaska, and also by air to Fairbanks and Anchorage and I had been told in Fairbanks that I had probably angina pectoras, as it was put to me, so I decided on one of my trips to Seattle that I would have this hernia operation and I consulted with Dr. Chrispol, who was known to be one of the good surgeons of Seattle, and I was told

if I entered the hospital, not by Dr. Chrispol then, but by other people on a Friday evening that I could be out on Tuesday.

This I have verified since, so I consulted Dr. Chrispol with reference to the hernia operation and he asked me several questions and while I was back in his examination room, he told my wife that he was sure it was gall bladder trouble, so when I came back, he asked me whether if I could like to go to Doctor's Hospital for X-rays the following day.

I had 242 sick hours coming to me by the Government that had never been used, so I went to Doctor's Hospital the following day for X-ray examinations and it developed that there was a large gallstone and Dr. Chrispol told me that he would not ever want to say to someone they should have a major operation such as that; he wanted to leave it up to them, but he felt that under any circumstances that I should have the operation.

I decided that I would have the operation, and I made arrangements to enter the Doctor's Hospital, paid an entrance fee, and I was operated on and the gallstone was removed, the bladder was removed, and this Dr. Chrispol made a statement later that he washed out over 500 pieces of sand out of me.

So I was very sick. I didn't recognize anyone for possibly 3 or 4 days, even after I came out of the operation. Things were hazy for me, but I was in the Doctor's Hospital for a period of 14 days, and I told Dr. Chrispol that I would like to avoid any further expense in the hospital and that I would like to go back to the apartment, if that was possible.

I still had the rubber drain in me, and the wound had to be dressed possibly every 3 or 4 days, so it was agreed that I could leave the hospital and go back to the apartment and Dr. Chrispol did come to the apartment and finally removed the tube from my side.

Mr. SIMON. Mr. Staples, would you get to what happened when you left the hospital?

Mr. STAPLES. Yes, sir.

When I left the hospital and went down to Seattle, my bill, I was told by the hospital, that I didn't owe anything. I said, "How come?" And they said, "Well, the Lewis Construction Co.—"

The CHAIRMAN. The who?

Mr. STAPLES. The Lewis Construction Co.

The CHAIRMAN. Who are they?

Mr. STAPLES. They were one of the large contractors in Seattle. They did a lot of work in Alaska. They had large jobs going on.

The CHAIRMAN. FHA-insured mortgages?

Mr. STAPLES. Yes, sir.

The CHAIRMAN. They paid your hospital bill?

Mr. STAPLES. They paid my hospital bill.

The CHAIRMAN. How much was the amount?

Mr. SIMON. You have got a canceled check there, haven't you?

Mr. STAPLES. I have a canceled check. I could not go to the Lewis office for a week or so after I was taken out of the hospital. The first day I could go there, I went in a taxicab and I told them that they had done damage to me by doing things of that type, and what was the amount of money that they had paid, and they had their bookkeeper look it up and they told me it was \$847, and some odd cents, and I

wrote them a check and wrote on the back of the check, as you can see [indicating].

The CHAIRMAN. Yes. This check is made payable to Lewis Construction Co., \$847.25.

It reads:

This check pays in full money advanced in full by Lewis Construction Co. for hospitalization during my time of illness.

Did the Lewis Construction Co. pay your hospital bill without your knowledge?

Mr. STAPLES. They did, sir.

The CHAIRMAN. Why did they tell you they did it?

Mr. STAPLES. They said they didn't know what my financial condition was.

The CHAIRMAN. Is it a pattern on the Pacific coast here, in California and Seattle, for FHA-insured mortgage contractors to pay hospital bills and make up funds for sickness?

Mr. STAPLES. I don't think so, Senator.

The CHAIRMAN. It looks like it is a pattern because we have had instances of it in California and here is a case you had in Seattle where the builder tried to pay your hospital bill.

Mr. STAPLES. Why should the builder do that when I was issuing checks for my anesthesiologist, and so forth in the hospital, and where I had drawn from my bank in Juneau enough money to cover this operation and brought it to Seattle.

The CHAIRMAN. I would say the ingenuity of these fellows is really something to think about, is it not?

Mr. STAPLES. I may state further——

Mr. SIMON. Mr. Staples, there was no doubt in your mind it was improper for them to pay your hospital bill, was there?

Mr. STAPLES. It was absolutely improper.

Mr. SIMON. I gather you don't think they did you any favor by trying to pay your hospital bills?

Mr. STAPLES. No, sir, they did not. Not only that, but I have a letter that I addressed again after I read the vicious article that was published about me in House and Home, in March of 1953, in their magazine, where they brought this subject up.

The CHAIRMAN. Where the Lewis Co. paid your hospital bill.

Mr. STAPLES. I can give you a copy of it.

The CHAIRMAN. We are going to have to find out how widespread this matter of FHA contractors has been in the United States in paying hospital and doctor bills and sick bills of FHA employees because it seems to be one of the methods that they have used to reimburse FHA employees for favors.

Mr. STAPLES. I also intend to take action against House and Home when this matter is cleared, because they have been instrumental in my having to leave two jobs.

Mr. SIMON. Mr. Staples, you were here this afternoon and heard Mr. Kadow testify about your conversations with him?

Mr. STAPLES. Yes, sir.

Mr. SIMON. Would you give us your version of the incidents?

Mr. STAPLES. It was during the latter part of August, or the first part of September 1950, that I received a telephone call from Mr. Kenneth Kadow, asking me to have a private conversation with him

in my office in Juneau. An appointment was made, and Mr. Kadow did come to my office that same day.

The conversation began with a discussion of an area of land on Anchorage, Alaska, known as Goose Lake, and land that could be transferred to the Alaska Housing Authority from the Land Management Division of the Department of the Interior, who in turn would make it available to sponsors for the building of homes.

I want you to appreciate the fact then that the Alaska Housing Authority charged the sponsors for the land.

Mr. Kadow knew that I was not in favor of accepting this particular parcel of land, as an adverse opinion against it had been made by Mr. Al Robinson. Mr. Al Robinson is the land planner from the Seattle office, he having made a survey of the plot in Anchorage.

I had also stated to Mr. Glen Wilder, executive director of the Alaska Housing Authority, that I would be very hesitant to issue any commitments at Goose Lake at that time as I did not consider it was a contiguous growth to the city of Anchorage.

Mr. Kadow tried in his conversation to have me change my mind about improving Goose Lake area.

The CHAIRMAN. What was the date of this?

Mr. STAPLES. This is in the latter part of August or the first part of September.

The CHAIRMAN. What year?

Mr. STAPLES. 1950.

The CHAIRMAN. This is while Mr. Kadow was still with the Interior Department?

Mr. STAPLES. I think so.

Mr. Kadow tried in his conversation to have me change my mind about improving Goose Lake area for FHA loans, stating that a sponsor could be found who would build 300 houses there and that Anchorage needed 300 houses, additional houses.

I agreed that there was a need for single-family homes in Anchorage, but that I was not in favor of approving Goose Lake simply because the Alaska Housing Authority could obtain title and make a resale to a sponsor, and there were many other factors to consider, such as location, lack of schools, community centers, transportation, whether the roads would be kept open during the long winter months, and so forth.

After considerable discussion, and still realizing that my opinion had not been changed as to the acceptability of Goose Lake, he again stated that the sponsor could be found for the 300 homes who, if the commitments were satisfactory, would be willing to pay out \$100 a house or a total of \$30,000.

The CHAIRMAN. You mean he offered to pay you \$30,000 if you would approve it? Is that what it amounted to?

Mr. STAPLES. I will come to that in just a minute.

Being curious to learn if possible who the sponsor was and in order to bring out just what the proposal was, I stated that by the time I reported to Internal Revenue, the receipt of such a sum of money, that the tax deduction would be considerable and, further, I would like to know who the sponsor was.

His answer was that he could not reveal the name of the sponsor, but as far as the tax was concerned, the \$30,000 could be escrowed,

and I could take it out at any rate per year I wished, thereby reducing taxation.

He further stated that he would not make any payments himself, but as there were friendly relations between both myself and wife and Cash Cole—that is the name, C-a-s-h, C-o-l-e—and his wife, that Cash Cole could take care of that end.

The CHAIRMAN. Who is Cash Cole?

Mr. STAPLES. Cash Cole is one of the early settlers of Alaska—an Alaskan.

The CHAIRMAN. In other words, your testimony is that Kadow told you that Cash Cole would pay you the \$30,000?

Mr. STAPLES. That is exactly what I reported to Washington, that I am reading to you.

Wishing to learn more about this offer, I told Mr. Kadow that I would arrange to have Mr. and Mrs. Cole for Sunday morning breakfast at my house, and question Mr. Cole.

It was quite frequent that we did have breakfast together in Alaska.

Mr. SIMON. That is, you and your wife and Mr. and Mrs. Cole?

Mr. STAPLES. That is right.

This I did the following Sunday, and while Mrs. Staples and Mrs. Cole were in the kitchen preparing breakfast. I asked Mr. Cole what he knew about such a offer, and what part he expected to play in it.

Mr. Cole seemed reluctant and hesitant about the matter, and refused to commit himself, and I was inclined to believe that during the day or two that had elapsed since Mr. Kadow's visit to my office, that Mr. Cole had probably told Mr. Kadow that, knowing me better than Mr. Kadow did, that he had taken the wrong approach in suggesting such an offer, and the balance of the conversation with Mr. Cole did not gain me any further information as to the source the money was to come from, or how it was to be paid, or who the sponsor was who had suggested it.

I told Mr. Cole that I was very sorry to learn that Mr. Kadow or anyone else had the opinion that any favor could be gained from me by the offer of any money; that at no time would anyone receive commitments from me or my office by the offer of anything.

Further, that it was not a question of personal feelings toward the development of Goose Lake, but that I did not believe it was the proper time to consider it, and further, if I really felt he was involved in the offer suggested by Mr. Kadow, that I would be inclined to refuse him, Cash Cole, any further commitments.

He stated definitely that he was not involved in it, and I have taken his word that this statement from him was true.

Mr. Cassidy, Mr. Woods, and Mr. Beal came to Alaska——

The CHAIRMAN. Who were they?

Mr. STAPLES. Mr. Cassidy was the zone commissioner of zone No. 5, out of the Washington office.

The CHAIRMAN. Of FHA?

Mr. STAPLES. Yes. Mr. Woods is now acting zone commissioner of zone No. 5, FHA, but at that time was the underwriting supervisor for the seven Western States including Alaska, and the Hawaiian Islands.

Mr. Beal is the Chief Architect from FHA of the Washington office.

Mr. Cassidy, Mr. Woods, and Mr. Beal came to Alaska the latter

part of September 1950, first visiting Juneau, my home office, and at that time Mr. Kadow did see and talk to Mr. Cassidy alone.

In other words, Mr. Cassidy went to Mr. Kadow's office.

When Mr. Kadow learned we were proceeding to Anchorage he also flew to Anchorage, and, in company with Mr. Cassidy, Mr. Woods, Mr. Wilder, of the Alaska Housing Authority, and myself, made a trip to Goose Lake property.

The object of this trip, under the guidance of Mr. Wilder and Mr. Kadow, was to try to overrule any objections that I had to the area.

Later that evening, in the Westward Hotel, I informed Mr. Cassidy and Mr. Woods of the conversation held with me in Juneau, without at that time identifying Mr. Kadow as the principal, and the amount of money that was suggested that could be paid, provided I felt inclined to accept the Goose Lake area.

I would have my Underwriting Department approve for issuance the 300 houses for the sponsor, in other words.

Later that same evening I told Mr. Cassidy that if he and Mr. Woods approved Goose Lake under the present circumstances that I would resign as director of the Federal Housing Administration, and that was then told in the presence of Paul Sutton, who was my acting chief underwriter at that time, and who is now, I believe, chief underwriter in the Helena, Mont., office, and I have a letter of censure later—

The CHAIRMAN. A letter of censor?

Mr. STAPLES. Censure, c-e-n-s-u-r-e, from Mr. Cassidy, in reference to that subject.

The CHAIRMAN. You mean you have a letter of criticism from Mr. Cassidy?

Mr. STAPLES. Mr. Cassidy did not like me telling him that if he and Mr. Woods should approve Goose Lake over my head that I would resign.

He did not want me to say that—

The CHAIRMAN. Was Goose Lake ever approved?

Mr. STAPLES. Goose Lake was never approved while I was director.

The CHAIRMAN. Has it been approved since?

Mr. STAPLES. Really, Senator, I know very little about what has happened in Alaska since I left.

The CHAIRMAN. Were you ever able to find out who the sponsor was that Mr. Kadow had in mind?

Mr. STAPLES. No, sir; I was not.

The CHAIRMAN. All right. You may proceed.

Mr. STAPLES. It might have been just as Mr. Kadow made a remark here, maybe where we were playing "cops and robbers."

The CHAIRMAN. Do you think you were?

Mr. STAPLES. I didn't think so. If I had thought so I would not have made the reports to the Washington office on it.

The CHAIRMAN. What was your general impression of Mr. Kadow's visit and his operations up there in respect to this matter? Did you later approve projects for him when he resigned from the Government and went with this Seattle firm and did do some building up there?

Mr. STAPLES. I am very much surprised. I never knew Mr. Kadow was interested in Island Homes.

There is a considerable long story about Fairbanks. One of the most vicious newspaper campaigns in the world was taken by the

News Miner and the other papers in the Fairbanks area against me because I would not approve another large section 608 job in the Weeks Field area.

Mr. SIMON. What area?

Mr. STAPLES. Weeks Field, W-e-e-k-s.

Mr. SIMON. That is an Air Force base?

Mr. STAPLES. It was an Air Force base at that time—for Cash Cole as a sponsor. In Washington, the mortgagee by the name of Behrens, Behrens Mortgage Co. had written me and told me that they were willing to act as mortgagee on another project in Weeks Field for Cash Cole.

I had also learned that the city of Fairbanks had made a long-term lease with Cash Cole for a nominal sum per year for considerable of that acreage in the Weeks Field area.

I was not interested in any more section 608 jobs in Anchorage—I mean in Fairbanks.

Mr. SIMON. Why?

Mr. STAPLES. Because I considered we had enough of the section 608 projects to take care of. While we were in need of single-family homes there—

The CHAIRMAN. Did you approve of the \$200—I believe that was the figure Mr. Kadow testified—that he received from the sale of those lots?

Mr. STAPLES. No, sir. I had nothing to do with the Alaska Housing Authority whatsoever, sir.

The CHAIRMAN. This did not come within your scope of authority?

Mr. STAPLES. No, sir.

The CHAIRMAN. Did you know of the transaction?

Mr. STAPLES. No, sir. That is all new to me today from Mr. Kadow.

The CHAIRMAN. You heard that testimony, didn't you?

Mr. STAPLES. Yes. That is all new. That is the first time I ever heard of that.

The CHAIRMAN. Did you hear Mr. Kadow testify that you asked him for cash?

Mr. STAPLES. I did, sir.

The CHAIRMAN. You did?

Mr. STAPLES. Did I hear?

The CHAIRMAN. Yes.

Mr. STAPLES. Yes; I heard him make that statement.

The CHAIRMAN. Did you ask him for cash?

Mr. STAPLES. I did not.

The CHAIRMAN. Did he offer to pay you \$100 on each of these houses if you would approve this project?

Mr. STAPLES. He made a statement that he could find a sponsor who would be willing to pay \$100 a house, provided I approved 300 houses in the Goose Lake area.

Mr. SIMON. Did he later, in April of 1951, just after he had left the Government, suggest that he would write a letter saying that you hadn't been off the reservation and wanted you to write a similar letter for him?

Mr. STAPLES. That is correct, sir.

Mr. SIMON. Did you ever write such a letter?

Mr. STAPLES. I did not.

Mr. SIMON. Why?

Mr. STAPLES. Because I still have my opinion.

Mr. SIMON. In other words, you haven't changed your mind from what you put in the first letter you wrote to Washington?

Mr. STAPLES. No, sir.

Mr. SIMON. Why do you suppose he was so eager then to write a letter saying you had done nothing wrong and went out of his way here again today to make clear that you had done nothing wrong? What do you suppose his motive was there?

Mr. STAPLES. Maybe I have misjudged him. I don't know. Maybe he was felling me out at that time, but I didn't feel that way. I felt that it was a sincere offer when he said that Cash Cole could tell me more about it.

Mr. SIMON. Did you feel that cash was coming from Cash Cole?

Mr. STAPLES. No. I don't think it was coming from Cash Cole because I don't think Cash Cole had that kind of money.

Mr. SIMON. Where do you think it was coming from?

Mr. STAPLES. Well, sometime before that, they brought a party into Alaska by the name of Mr. Rush Light, from Portland, Oreg. They arranged a dinner for both me and my wife, Mr. Rush Light and his wife, Mr. Cash Cole and Mrs. Cole.

Now, definitely I cannot say I don't remember whether Mr. Kadow was there or not, so I can't just say whether he was there, but this dinner was over at what we call "Mike's Place," in Douglas.

Mr. SIMON. Where?

Mr. STAPLES. Mike's Place.

Mr. SIMON. In what city?

Mr. STAPLES. In Douglas, across the Gastonov Channel, across the bridge.

Mr. SIMON. From Fairbanks?

Mr. STAPLES. From Juneau, and during the dinner Mr. Rush Light made the statement that he was interested in housing in Alaska, and I asked Mr. Rush Light if he had been to Alaska before and he said, "No," that he had not, and I stated that before he thought he should become interested in housing in Alaska, that he should make a trip through the Territory, and he was talking about Anchorage in particular, or Fairbanks, and so Mr. Rush Light and his wife, as far as I understand, and Mr. Cash Cole and his wife, and I don't know whether Mr. Kadow accompanied them or not, made this trip through Alaska and it later developed that Mr. Rush Light had the plumbing contract or something to do with one of these section 608 Fairview Manor deals Nels Mortonson and Cash Cole was involved in in Fairbanks, and that Mr. Rush Light then did have some type of an interest, or was doing work there, see?

Mr. SIMON. Yes, sir.

Mr. STAPLES. So it was shortly after that that I was propositioned on this Goose Lake deal for 300 houses.

Now, I cannot definitely state who the sponsor was.

The CHAIRMAN. Outside of the offer made you by Mr. Kadow and the eight-hundred-some-odd dollars that the Lewis Construction Co. in Seattle—was it Seattle or Portland?

Mr. STAPLES. Seattle—

The CHAIRMAN. When they tried to pay your hospital bill, have you ever had any FHA builders try to bribe you or offer you anything of value?

Mr. STAPLES. No. I wouldn't say so; not that I know of.

Mr. SIMON. Did they ever offer you any gifts or loans or gratuities?

Mr. STAPLES. No, sir.

Mr. SIMON. Was there any talk in this conversation with Kadow about the \$100 a house of raising the commitments to cover the \$100?

Mr. STAPLES. No, sir. In the first place, when this conversation took place, Bentley Island was not—I wasn't giving very much thought to Bentley Island at that time and neither did I give thought to Bentley Island until after Mr. Cassidy, from Washington, and Mr. Woods, arrived on our trip to Fairbanks, and with Mr. Beal, and they agreed with me that we did not want another section 608 project in Fairbanks, but we did need single-family homes, and that Nels Mortonson Co. had written a letter, which I have a copy of, to the city of Fairbanks, trying to get single lots on Weeks Field to build houses, but no answer.

Martin Anderson Construction Co., which is a very well-known construction company, had written to the city of Fairbanks asking for single-family lots on Weeks Field, without any reply, so they decided that we could, with the land plan that had already been approved by the Seattle office, accept with a sponsor—and I gathered I would not accept later.

He had approached me, but Slater was not strong enough for me to accept, but when Nels Mortonson—and this is where I am surprised, because I must say that I never knew Mr. Kadow was working with the Mortonson Co. to get them to go in with the Bentley Island project—this is the first date I have ever known of that, but when Nels Mortonson came along and said that they would go in to build the Bentley Island project, then I began to look with favor and approval, provided it was submitted in the proper way through the proper mortgagee.

The CHAIRMAN. Thank you very much.

Mr. STAPLES. Is that all you want of me?

The CHAIRMAN. Yes, sir.

Mr. STAPLES. There is just one thing that I would like to say, Senator.

The CHAIRMAN. You may proceed.

Mr. STAPLES. Maybe I am out of turn.

The CHAIRMAN. You go ahead and we will see.

Mr. STAPLES. I think that the Alaska Housing Authority was one of the worst agencies that was ever produced any place; that my builders up to that time could complete their projects under what we granted under the FHA loans, but when it was possible for the Alaska Housing Authority to advance them an additional 25 percent, that all of them then was in trouble.

Mr. SIMON. You mean by that that they were able to pay for these improvements themselves, but the public money became available?

Mr. STAPLES. That is true. The first \$10 million they got they couldn't get rid of fast enough.

The CHAIRMAN. \$10 million, you say?

Mr. STAPLES. That was the first grant to the Alaska Housing Authority.

The CHAIRMAN. Do you think that was wasted?

Mr. STAPLES. I don't know. I am looking for a confidential report here from Mr. Foley's office that I had on the whole Alaska Housing Authority. It may be in my grip.

Senator; I would like to submit this report to you, written under date of November 10 of 1950 and addressed to me by Mr. Foley. It is a confidential report.

The CHAIRMAN. Without objection, we will make this report of public record.

(The material referred to follows:)

HOUSING AND HOME FINANCE AGENCY,
OFFICE OF THE ADMINISTRATOR,
Washington 25, D. C.

Mr. CLINTON C. STAPLES,
Territorial Director, Federal Housing Administration, Juneau, Alaska.

DEAR MR. STAPLES: I am sending you herewith a report entitled "A Survey of Community Planning and Development Needs in the Principal Cities of Alaska," written for this agency by Mr. Robert Christensen, Land Planning Consultant from the Federal Housing Administration, Seattle, Wash.

This report contains the conclusions and recommendations based upon the community planning and development studies in the cities of Fairbanks, Anchorage, and Juneau made this past summer with which you are familiar. The study grew out of the efforts of a group of Federal, Territorial and local officials, of whom you are one, to help solve problems of community development, particularly with respect to coordination of housing and public works projects.

On pages 31 and 32 of the report is contained a list of the members of the planning survey group and of persons and organizations who evidenced special interest and participated in this survey. It is to these persons that we are making this initial distribution of the report with the understanding that it be regarded as a working document for study and use to stimulate interest in community planning, and particularly the need for Territorial planning legislation. The report is not intended for general publication or distribution at this time.

While the studies were confined to the three communities above mentioned, it is apparent that the planning problem is one of interest to any developing and expanding community in Alaska, and that the general conclusions of the report have equal application to all communities.

Officials of the Department of the Interior, who also participated in the planning studies, are preparing a draft of proposed legislation to be made available to the Governor and suggested for passage by the Territorial legislature. Such bill would create a planning and zoning commission to tackle the very real problem of community planning and related functions in Alaska. This will be available in the near future.

Should you have suggestions or comment on the enclosed report or the general subject of community planning, please do not hesitate to write to this Agency, attention Mr. Burton O. Young, assistant to the Administrator, or to Mr. Dan H. Wheeler, Assistant Director, Office of Territories, Department of the Interior, with whom we are in close cooperation.

Sincerely yours,

RAYMOND M. FOLEY,
Administrator.

REPORT ON ALASKA TRIP, JANUARY 5 THROUGH JANUARY 17—RAYMOND M. FOLEY,
ADMINISTRATOR, BURTON O. YOUNG, ASSISTANT TO THE ADMINISTRATOR

JANUARY 23, 1950.

This report will be divided in two major sections, the first covering a chronology of the working days during the trip, organizations and persons contacted, with only brief indications of subjects discussed; the second section will take up major substantive subjects of concern in achieving the objectives of the trip and of the Alaska housing program.

I should like first, however, to compliment the various members of our group each of whom was very helpful in our achieving the major objectives of executing the loan contract and completing the initial bond purchase, coming to agreement on a program framework for the Alaska Housing Authority, reaching

agreement on a reasonable AHA budget, and sizing up the ability of the AHA to organize for the successful development and operation of the program. Mr. Vernon Hubka, Chief Attorney, did a superb job in spite of unusual obstacles and difficulties in carrying through the legal process required in the execution of the loan contract and bond purchase and assuring their legal validity; Mr. Hugh Johnson, Budget analyst, OA, made an excellent impression with the AHA Commissioners in his budget discussion which brought about ready agreement on their part to an overall budget limitation, making it possible to work out reasonable adjustments with the Executive Director within the overall limitation. Mr. William D. Burkheimer, OA representative for Alaska, made a fine impression on all he met in the Territory and was able to contribute in many ways to our task. He will undoubtedly be a credit to the Agency in representing it in the Territory. Mr. C. C. Staples, FHA territorial director, was most helpful and cooperative in discussions with the AHA Commissioners, particularly on program aspects, and his cooperation gives assurance of a good working relationship between FHA, AHA, and OA in the operation of the program; Mr. Philip Ruen, PHA Seattle field office, was likewise cooperative in all respects and especially helpful in obtaining information on and judging the present operating difficulties of the AHA with respect to personnel, accounting, and management. The united front which representatives of the HHFA (OA-FHA-PHA) were able to present was gratifying as well as helpful and a tribute to the overall approach for housing.

SECTION I—CHRONOLOGY

Friday, January 6: During this day, in Seattle, Mr. Burkheimer and I discussed various aspects of the program with officials in the Seattle offices of FHA, PHA, and FNMA. In FHA we met with Director Clark Jackson, Chief Underwriter Earl McLaughlin, Assistant Director Baker, Assistant Chief Underwriter John Carter, Chief Architect Pattison, Land Planner Christenson, and Market Analyst Robinson. In PHA we met with Field Office Director Redman, and in RFC-FNMA we met with Chief Loan Officer DeHuff and his assistant, Mr. Peterson. We discussed the coordination of the program and the manner in which the activities of these agencies would gear in with the program to be developed by the AHA. From some of the FHA officials we obtained an analysis of section 608 housing rental projects on which FHA has issued commitments to date, and discussed the possible need for the AHA to assist some of these sponsors with either preconstruction loans or possibly for the higher-cost projects second-mortgage loans. We also gained some impressions of the possible sponsorship of section 203 which may be necessary to assure a reasonable volume of construction of this type of housing by responsible sponsorship.

Saturday and Sunday, January 7 and 8: I flew to Juneau, Alaska, Saturday, to keep an appointment with Governor Gruening to discuss the problems we recognize and the concern we have with regard to the character of the AHA Board membership and the cost and difficulties in their meeting as frequently as would seem to be required in properly conducting the Public Law 52 program. This subject will be thoroughly discussed in the second section of this report. Also at the request of Mr. Pointon, Bureau of Indian Affairs, Department of Interior, I met with Mr. Don Foster, Chief, Alaska Native Service, to discuss the means for making land now in the jurisdiction of the ANS available to a private sponsor for construction of housing that will be needed for personnel of the ANS hospital being built at Anchorage and scheduled for completion in the summer of 1952. It was agreed that I would follow up on this matter with the Bureau of Land Management officials in Anchorage.

While in Juneau, I also had opportunity to meet the FHA Chief Underwriter, Mr. Strang, to go through the FHA offices there and to discuss with him housing developments in the Territory and the types of need for AHA financing assistance to sponsors of new housing construction. I also talked with Mr. Kenneth Kadow, Chief, Alaska Field Committee, Department of the Interior; Dr. Albrecht, Territorial commissioner of health; Mr. Argetsinger, district engineer, GSA; and with Mr. Gene Vuille, AHA project manager. I also met Mr. Patton, with GSA, and discussed with him and Mr. Argetsinger, the development of the GSA community facilities program in the Territory and its relationships with housing.

Monday, January 9: In the morning of this day, Mr. Hubka, Mr. Burkheimer, and myself met with the AHA Board of Commissioners to take up the legal steps necessary in advance of execution of the loan contract. The difficulties en-

countered in this respect will be fully reported separately by Mr. Hubka. In the early afternoon, Mr. Burkheimer and myself together with Mr. Staples, FHA Territorial director, Mr. Swanson, FHA architect, and Mr. Wilder, AHA Executive Director, met with Colonel Johnson, general manager, Alaska Railroad, and members of his staff to discuss housing needs of railroad employees at Anchorage, Fairbanks, and Whittier, and possible means of meeting these needs with assistance from the AHA.

In the late afternoon this same group of housing officials met with the Department of Defense Military Housing Commission which was making a study of Alaska military housing problems, particularly problems in obtaining Wherry Act housing. We met at the request of Commission Chairman Gieseke; the other two Commissioners, Mr. Loew and Mr. McKinney, were present as were also Col. Lawrence Westbrook, Executive Director for the Commission, General Twining, Chief of the Alaska Command, and Mr. Markley Shaw from the Office of the Secretary of Defense. The subject of military housing in Alaska will be covered in section II.

Tuesday, January 10: Mr. Hugh Johnston, HHFA budget analyst, had joined our group Monday evening and on Tuesday morning he, Mr. Burkheimer and myself had a discussion of the budget proposals for the AHA. Although the AHA Board of Commissioners held meetings this day, it was unnecessary for us to attend, pending resolution of the legal tangles which Mr. Hubka worked on during the day. In the afternoon we brought Mr. Staples into a discussion of the program prospects for the AHA in assisting private sponsors in preparation for later program discussion with the Board of Commissioners and the Executive Director, AHA. In the evening the HHFA group together with Mr. Philip Ruen from the Seattle PHA office met with AHA Board Chairman, Father O'Connor, and Commissioner Loussac in general discussion of problems affecting the AHA program.

Wednesday, January 11: In the morning we met with the AHA Board of Commissioners and were able finally to proceed with the legal process toward execution of the loan contract with the AHA which was completed in the afternoon. In the early afternoon, Messrs. Burkheimer, Hubka, Wilder, Staples, and myself met with Mr. Barber, regional counsel of the Bureau of Land Management, and his assistant, Mr. Meaks, to discuss the Alaska Native Service land problem. Mr. Harry Lewis, prospective sponsor of housing to serve ANS hospital personnel, also participated in this discussion. Mr. Barber indicated that final regulations of the Bureau of Land Management had not yet been issued with respect to transfer of land by BLM to the AHA for housing purposes. We learned that these regulations were received the following day and provided an adequate basis for meeting the problem of making the ANS land available to a private sponsor by the AHA and transfer from ANS to BLM to AHA.

Thursday, January 12: In the morning we met with the AHA Board of Commissioners together with Mr. Staples and Mr. Ruen to discuss the prospective program of assistance by the AHA. Program developments will be fully discussed in section II of this report. At noon our whole group including the representatives of the constituent agencies were guests of the Alaska Command including General Twining, General Armstrong, Colonel Yater, Colonel Butler, and Colonel Cordamon, and following lunch there was some continued discussion of military housing problems.

We resumed meeting with the AHA Board of Commissioners in the afternoon for discussion of the proposed budget for AHA operations. Our discussions and conclusions with respect to budget will be fully reported separately by Mr. Hugh Johnston. Having obtained agreement of the AHA Commissioners to an overall budget limitation for the period of June 30, 1950, we worked with Mr. Wilder and members of his staff late into the evening in making and agreeing to minor adjustments within the overall budget figure.

Friday, January 13: In the morning we met with members of the AHA staff responsible for the remote dwelling improvement loan program to discuss results of the experimental program conducted last year and prospects and plans for the further development of this program. We obtained the feeling that this program was in good hands and had good prospects for successful, sound development. During the morning Mr. Hubka and myself also met with Mr. Crawford of the Anchorage Title & Trust Co. to discuss with him the prospects of their company being able to offer title insurance on property that will be involved in the program as it develops. In the afternoon we met again with the AHA Commissioners in a meeting open to the press to give the press a story on the accomplishments of the meetings between ourselves and the AHA Commissioners.

Mr. Hubka and I had prepared a statement for the press and cleared it with the Commissioners and the Executive Director, AHA, as a foundation for good reporting on our meetings. This statement was for the most part used verbatim by the press so that there was good and accurate reporting on the results of the meetings. Friday evening our whole group were dinner guests of Mayor Loussac, and I had further opportunity on this occasion to discuss particular problems with Father O'Connor and Mayor Loussac.

Saturday, January 14: A good part of this day was spent at the offices of the AHA in discussing with AHA staff members various steps and problems in the development of the program. The Board of Commissioners, AHA, held closed meetings from which we were excluded throughout the day. In the late afternoon we had further discussions with Colonel Yater, who is Coordinator of Wherry Act housing for the Alaska Command regarding the problems in making the Wherry Act program effective in Alaska.

Sunday, January 15: We again spent the morning of this day at the Alaska Housing Authority offices talking with Mr. Wilder and members of his staff with regard to the agreed-upon budget, the criteria for countersignature of checks by Mr. Burkheimer, and examples of prospective housing projects where AHA assistance appears likely to be needed.

Monday, January 16: Mr. Johnston and myself spent this day in Seattle in discussions with FHA and PHA officials. Mr. Redman, PHA field office director, had requested that we return by way of Seattle to discuss the accomplishments of our meeting with the AHA and the outlook for the future. I also interviewed Mr. Mark Mason, who appears to be an excellent candidate for the job of loan supervisor on the staff of the AHA. He had written Mr. Wilder indicating his interest in the position, and we are hopeful that the AHA may hire Mr. Mason for this position, which is a key position, from our standpoint, in the success of the AHA loan program.

SECTION II—MAJOR SUBSTANTIVE SUBJECTS COVERED DURING JANUARY ALASKA TRIP

1. *Legal process in executing loan contract and bond purchase.*—The extreme and unusual difficulties involved in assuring legality of the loan contract executed with the AHA and the validity of the \$20,000 bond purchase under this contract are set forth in a special report by Mr. Hubka together with his legal opinion on these subjects.

2. *AHA Board of Commissioners.*—The problems involved, and the concern to us, by reason of the lack of business and banking talent and experience in the membership of the Board, together with the high cost of holding meetings of the Board as constituted and the apparent inability to meet frequently or call meetings on short notice, were discussed with Governor Gruening in Juneau and, at his suggestion, with the Board itself at the meetings in Anchorage. The Governor appeared to have a quick recognition and appreciation of these problems and discussed possible solutions. He suggested the possibility of the Board delegating its authority to a special committee which could be made up of local Anchorage membership of the type desired. I expressed doubt as to the ability of the Board to so fully delegate its powers and this inability has been confirmed by Mr. Hubka. The Governor apparently saw a possibility of solution in resignations from the present Board and reappointments of the type and in such location as would give greater assurance of proper functioning of the Board but he indicated that he felt that neither he nor we would be in a position to positively suggest such a course to the present membership of the Board. It was agreed with the Governor that we would discuss the matter with the Board and then discuss it further with him upon our return to Washington at which time he expected to be in Washington.

In discussion of the matter with the Board members, they too appeared to readily recognize and appreciate the problem and were willing to seek solutions. The suggestion was made to them that geographic and public interest representation (now a feature of the Board membership) could be preserved by the establishment of advisory committees headed by some or all of the present Board members, thereby permitting creation of a Board which might include one or more present members but which could be so made up as to provide the desired business and banking experience, be able to meet more frequently and more speedily and at much lower cost. None of the Commissioners indicated any positive reaction to this suggestion.

A partial solution suggested and discussed was that 3 members, constituting a quorum, might be able to meet more frequently or on sudden call with tacit

agreement that 2 members less accessible or able to meet give waivers for such meetings thereby making it possible to call an effective Board meeting more frequently, more promptly and at less cost. The Board apparently intends to try out this latter course. While this may offer some improvement in the situation, it does not at all solve the problem of lack of business and banking experience.

3. *The Executive Director, AHA.*—The AHA Executive Director, Mr. E. Glen Wilder, has undoubted and widely recognized qualities of sincerity, idealism, and hard-working devotion to the job. (This latter quality may be questioned somewhat in terms of demonstrated accomplishment.) These qualities are admired by the Commissioners who apparently hope to see him succeed in the job. There are, however, many evidences of a lack of executive ability including poor judgment, inability to acquire competent personnel and to engender good employee morale, loose practices in accounting and visionary impractical program aims. We believe that the Commissioners have begun to recognize some of these questionable qualities, perhaps beginning with the September meeting of the Board in Juneau, but particularly during the January meetings. One of the Commissioners confided that in one of their later meetings they had indicated to the Executive Director a growing feeling that something was fundamentally wrong in the operation of the Authority and that unless marked improvement could be demonstrated in the near future, they felt some drastic action might have to be taken. Some of the subjects to follow will give insight into the question of competence of the Executive Director.

4. *AHA personnel.*—By observation and discussions in confidence with some of the key employees of the AHA, it was apparent that there exists a great deal of disaffection, bickering and poor morale generally on the part of most of the employees. While there are reasons for this, in part related to delay in receiving funds and the attempt of the Authority to "jump the gun," in effect, on the program before assurance of funds for administrative expenses and the consequent on-again off-again efforts to progress with the program resulting in certain layoffs, reductions in salary, and leave without pay for various periods for many of the employees; nonetheless, the employees apparently have not been given adequate understanding and appreciation, as a basis for maintaining their loyalty and devotion to the program, of the reasons for taking such personnel actions.

One of the employees charged that there were too many Mexican generals in the organization, including the Executive Director. This employee and another charged confusion, delay, contradiction, and arbitrariness on the part of the Executive Director in laying out a work program and directing day-to-day activities.

There are a number of examples of the exercise of poor judgment in the selection of employees. One example was the employment last May or June of a young man with little experience in the subject as assistant loan supervisor. This selection may be criticized as having been made at a time when there was no assurance of a job for him to proceed with, by reason of his questionable ability from the standpoint of training and experience for such a job had there been one, and by reason of appointment of the man of second responsibility in the important loan operation prior to appointment of the man to have chief responsibility for this function and without consulting the man who would have responsibility for that work and therefore for the work of such a subordinate assistant. This employee was let out at the end of September and it is now the opinion of the executive director, from the experience of those 4 or 5 months, that the man is not qualified for such a job and was in fact lazy as well as incompetent. Another example is the indicated positive intent of the executive director to employ as loan supervisor with top responsibility for the loan operations another relatively young man with very little experience in the subject. At the request of the Commissioners, we interviewed this man and looked into his qualifications for the position. We discovered that he had had less than 3 years of low-level experience in this field with an investment company in the States at a maximum salary of \$250 per month. Furthermore, it was learned that this man was a member of a corporation intending to do business with the Authority; also it was rumored from several sources that he had proposed assistance by the AHA to various sponsors with expectation of some personal gain. He had been permitted to maintain an office for some period of time at the AHA and to sign letters on AHA letterhead as loan supervisor without being on the payroll. Putting our concern largely on the basis of lack of qualification for the position, we discussed this matter with the Board of Commissioners indicating that we

were reluctant to involve ourselves in matters of personnel selection by the Authority and that in fact we assumed no prerogative in this respect. We suggested, however, that a board of this type ordinarily did and should exercise some control and judgment in the selection of key operating personnel and that it would be appropriate and desirable for the Board, by resolution, to require that the Executive Director make recommendations to the Board and obtain approval prior to such appointments. Considering the availability locally of only 1 member of the Board, we suggested that it might be most practicable if this control were put in 1 member. The chairman agreed to introduce such a resolution limiting it, at our suggestion, to employees at a salary of \$5,000 and over. We were advised on Sunday, January 15, shortly before leaving Anchorage, that such a resolution had been introduced on Saturday, that there had been considerable argument about it between the Board and the Executive Director and that a compromise had been agreed upon and adopted which limited such control to employees with a salary of \$7,000 and over. It seems quite possible that the Executive Director may have had in mind that this would permit him to employ his preferred candidate for the loan supervisor job as the assistant loan supervisor which, if done, prior to appointment and consultation with the loan supervisor would simply repeat the errors in judgment of the past.

5. *AHA accounting.*—We learned indirectly that the accounts of the Authority are currently in very poor shape. They are unable to produce a financial statement through December, and it appears will not be able to for some weeks at least and then only if they are able to get some special assistance. The Chief Accountant requested a meeting with the Commissioners to discuss the accounting problems of the Authority. The representatives of the OA were pointedly excluded from this meeting. Mr. Philip Ruen, PHA representative, however, was permitted to attend the meeting. He reported to us that there were at least 75 items, mostly of a minor nature, which either had not yet been charged to any accounts or for which there was dispute between the Chief Accountant and the Executive Director as to how they should be charged. Mr. Ruen indicated that the PHA Seattle office would request full reports from the AHA with regard to accounting and that the OA would be advised fully of the situation disclosed and would be provided copies of such reports received. On the basis of discussion with Mr. Ruen, the Executive Director indicated that he would request PHA to send a field accountant to Anchorage to assist the Authority in resolving their accounting problems and putting the accounts in shape. The Authority intends to employ as soon as possible a comptroller who will have responsibility for establishing a proper system of accounts and of supervising all accounting operations.

6. *AHA management of Lanham housing.*—While we had no positive intent nor little opportunity to go into the matter of AHA operations of the Lanham housing, we did learn from Mr. Ruen and by observation certain things of concern. In one instance, it appears that the AHA violated PHA regulations by going ahead without the required request and approval of PHA to make a Lanham property improvement in the form of a small structure to serve as warehouse and storage space at a cost of approximately \$900. This cost was partly charged to Lanham funds and partly to Territorial funds. The use of Territorial funds in this respect should be of similar concern to the Territory as the previous uses of Lanham funds for unauthorized purposes in connection with the new program were to us. Mr. Ruen indicated that this took place subsequent to the PHA audit as of June 30 but prior to September 30. In Mr. Ruen's judgment the improvement is a desirable if not necessary one, and one for which PHA would probably have given approval had proper request been made. The only way of handling the matter now seems to be for the AHA to make request after the fact and, if PHA approves, the Territorial funds so used may be reimbursed out of Lanham funds.

Another instance came from observation of the large volume of complaints to the Authority office by tenants with respect to the backup of ice under the eaves resulting in melting and dripping of water down into the apartment units with consequent damage to interior decorating, if not to the structures themselves. The Authority staff seemed little concerned with this matter and, until urged to do so by Mr. Ruen, had made no examination of the situation and its causes toward remedy. We learned that the Technical Director, who has been carried during recent months in part at least on Lanham account with responsibility for assisting in maintenance problems, had given no attention to this matter. Mr. Ruen looked into the Lanham property matters more thoroughly than did we and will undoubtedly be reporting to PHA on the conditions he observed.

7. *Budget.*—As indicated in section I, above, agreement was reached with the AHA Commissioners on an overall budget through June 30 consistent with the budget formulated in advance of our trip by the OA budget and organization staff. Certain minor adjustments within the overall limitation were made after discussion with Mr. Wilder and his staff. Mr. Johnston will report separately in detail with regard to the budget discussions and the agreements reached.

8. *Program.*—Mr. Staples, FHA Territorial Director, and Mr. Ruen from the PHA Seattle office also participated in our discussions with the AHA Commissioners and the Executive Director on the various types of loan assistance contemplated for the AHA in our operating instructions. We had sensed earlier that some, if not all, of the Board members felt that the Executive Director was inclined to be somewhat visionary, loose, and expansionist in his program ideas. The Board appeared to believe that the program framework provided in our operating instructions was satisfactory. The Executive Director argued strongly for equity financing both for large rental projects and for projects of single-family homes and also for preconstruction loans for projects of single-family homes. We pointed out the desirability, if not necessity, of assuring strong, responsible sponsorship and turned the Executive Director's arguments in part against himself by showing that his aim, and goal of completed housing to serve the needs in Alaska cities might more assuredly be attained if there was insistence upon strong sponsorship. We proposed, however, that we would entertain exceptions to the operating instructions for second-mortgage financing of large rental projects under FHA's section 608 in cases where, after FHA processing, it was demonstrated that per unit costs would run above \$12,000, and to the extent of the difference between \$12,000 and the FHA estimated per unit costs, and where, in the mutual judgment of FHA, the AHA and our program representative, such secondary financing would be necessary to encourage good sponsorship to proceed with construction which would result in housing of suitable standards and rents (taking into account increased amortization by reason of such secondary financing) for the market in the locality in question. Under this formula AHA is to make no general invitation to sponsors of the possibility for such secondary financing. This formula was accepted by the Commissioners and the Executive Director and is agreeable to Mr. Staples.

A similar formula was proposed for preconstruction loans for projects of single-family houses to be built under FHA section 203 and was agreed upon by all interested parties.

While it cannot be expected that the AHA should at this time have firm projections of probable projects in the various categories, inasmuch as they have not been in a position to issue public regulations or instructions for application for the use of sponsors, there has nonetheless come to their attention a considerable number of project proposals where one or another of the contemplated AHA loan aids are likely to be called upon. Also in the view of FHA officials in Seattle, particularly Mr. John Carter, who is most familiar with Alaska, and in the view of FHA Territorial Director Staples and his chief underwriter, Mr. Strang, there will be real need for AHA assistance, particularly in financing during construction, if the potential volume of housing in which there is already a substantial sponsorship interest is to go forward to completion. I am convinced, therefore, that there is a real and substantial program of loan assistance for the AHA if they are able to organize properly and quickly enough to carry it out.

The AHA has in prospect several cases that would involve their direct sponsorship, at least to the point of acquiring and developing sites for housing construction with the possibility of private sponsorship acquiring the developed land and carrying through with the housing construction. An example is the Duck Creek site in the Juneau Airport area which was acquired by AHA from War Assets. AHA is intending to work with GSA in the provision of utilities and development of the site and also to acquire surplus war housing demountables for reerection on the developed site, but to invite proposals from private sponsors (similar to the military Wherry housing proposals) for taking the land over and constructing the housing. This is a very complicated type of deal to work out and we tried to discourage the Authority from giving first attention to this sort of thing. There is, however, a great deal of popular, public support for such project development and the Commissioners, after thorough consideration of the matter, approved proceeding with the Duck Creek project. There is danger that such projects, because of their complexity, may absorb an unwarranted amount of staff time and be a heavy drain on the limited admin-

istrative expense resources in the early stages of the program. It may, however, be possible to support this type of project, if it has realistic possibilities of worthwhile development, with project loans including amounts to cover administrative expenses. We have urged Bill Burkheimer to follow such developments closely and to try to determine (in consultation with FHA) at as early a date as possible, whether they have real merit and reasonable chance of carrying through to completion.

In our discussions with AHA staff members responsible for the remote dwelling improvement loan program, we gained considerable confidence that there is a real program in this area and that it can be carried forward soundly and safely. The intention for this next year is to continue the program more or less on an experimental basis for the improvement of approximately 100 dwellings in 4 villages. The experimental program during the past year has demonstrated that with the combined use of materials, especially logs and materials from the old dwellings, available locally and the special materials to be purchased from loan proceeds, a new dwelling can be built which is far superior to the present dwelling in use and much more satisfactory than attempting to repair and improve the old dwellings. Father O'Connor has provided us with pictures of the dwellings built during the past season.

9. *Military housing.*—As indicated in section I we had discussions with the Military Housing Commission of the Department of Defense, which was in Anchorage at the time, and also with Col. Moss Yater, coordinator of Wherry Act housing for the Alaska Command, and others on the staff of the Alaska Command who have been assigned to work on Wherry Act housing. As you know, the Alaska Command early in December issued invitations for proposals by sponsors for the construction of some 3,550 units of Wherry Act housing—approximately 2,100 for location at Fort Richardson, Anchorage; 800 for Ladd Field, Fairbanks; and 600 to 700 for Eilson Field at Big Delta, 26 miles from Fairbanks. These proposals were initially to have been submitted by late December but successive extensions were made until January 17. The Alaska Command expects to receive proposals from a dozen or more sponsors for all or portions of the housing involved. Until these proposals are in, it cannot be assured whether such housing can be built within the limitations. It is assumed, however, by the Alaska Command, and probably correctly so, that the sponsors will not be able to provide the offsite utilities required, and they are seeking some means for assuring the provision of the necessary utilities. It is expected that the housing itself, including onsite utilities can be constructed at least in the Anchorage area within the FHA mortgage limitation and perhaps also in the Fairbanks and Big Delta areas, although this will depend in large part upon what standards, especially as to space, may be required by the military. Colonel Yater has developed the following possible alternatives for the provision of the offsite utilities:

(a) Loans from RFC and REA.

(b) Secondary financing from the AHA, it being realized that the needs in this respect for Wherry Act housing would make a large drain on the \$10 million fund and would necessitate further appropriations, if not also additional authorization and appropriation.

(c) Possible agreement between the municipalities involved and the GSA for extension of the necessary utilities under the provisions of the Alaska Community Facilities Act. Mr. Argetsinger, GSA district engineer, indicated to me that this possibility was highly doubtful.

(d) Increased FHA mortgage limitation for Wherry Act housing in Alaska by legislation, including authorization to FHA to include the offsite utilities within the mortgage.

(e) Direct appropriation to the Department of Defense for construction of the necessary utilities. The military does not look with favor on this alternative, feeling that such appropriations to the Department of Defense, if possible, would only result in lower appropriations for other important military needs.

(f) Direct appropriation to GSA or some other civilian agency to provide the necessary utilities.

Colonel Yater and others of the Alaska Command intend to be in Washington within the next 2 weeks to discuss these alternatives with the Department of Defense, the RFC, and the HHFA toward arriving at some agreement on which alternative or alternatives should be chosen and followed up for solution.

The Alaska Command estimates the average unit cost for provision of the off-site utilities at around \$6,000 to \$7,000 per dwelling unit. It appears therefore

that provision of utilities at such cost, if accurate, will in any event require subsidy in some form, either in the direct provision of the utilities or in higher pay or commutation allowances to enable tenants to pay the higher rents that would be required if a debt for provision of the utilities were to be amortized. I am inclined therefore to favor the direct appropriation to GSA and the provision of the utilities thereby in a manner similar to the provision of utilities for Lanham Act housing during the war.

The military is extremely sensitive about space standards for housing in Alaska both for Wherry housing and for their own construction out of direct appropriations. They are apparently fearful that any compromises in Alaska may result in lowering of standards in the continental United States and especially that the 1,080-square-foot limitation in present law may be reduced. They do seem to feel that standards on the Wherry housing can be lowered somewhat without this danger on the rationalization that it is a "temporary expedient" and "different." They are concerned even here, however, apparently foreseeing the probability of taking jurisdiction of the Wherry housing in the future with the problems of disparity between it and that constructed by the military.

In their invitation for proposals for Wherry housing in Alaska they insisted on a ratio of 20 percent one, 60 percent two and 20 percent three bedrooms and a minimum average unit size of 750 square feet in the Anchorage area and 700 square feet in the Fairbanks area.

Mr. STAPLES. Thank you, sir.

The CHAIRMAN. We thank you very much for testifying.

Mr. STAPLES. Thank you very much, Senator. I am at liberty to return to Nevada?

The CHAIRMAN. Yes. We are through with you.

In a moment, we are going to recess until 10 o'clock tomorrow morning, at which time our witnesses will be Mr. Ben Weingart, of Consolidated Hotels of California; Louis Boyer, a builder; Samuel Firks, a builder, of Beverly Hills, Calif.; Philip Yousem, a builder; Alex K. Millar, former general housing manager for the Federal Public Housing Administration; and Harold J. Schnitzer, builder, of Portland, Oreg., L. M. Halper, general contractor, Los Angeles, Calif.; and H. V. Davidson, FHA employee, Whittier, Calif.

Mr. LAUGHLIN. Senator, may I interrupt?

The CHAIRMAN. Yes.

Mr. LAUGHLIN. I notice Mr. Millar is subpoenaed for tomorrow.

The CHAIRMAN. Who?

Mr. LAUGHLIN. Mr. Millar is on our program for tomorrow, but his subpoena calls for the next day at 10 o'clock. I don't wish to be in contempt of court, but I expected to have him here the second day.

The CHAIRMAN. Will you change that and have him here tomorrow?

Mr. LAUGHLIN. I know that it will be inconvenient to do that. Can we put him on the following morning? I know he has his plans all set.

Mr. SIMON. How about 2 o'clock tomorrow afternoon?

Mr. LAUGHLIN. That is all right.

The CHAIRMAN. Thank you very much.

We will recess at this time until 10 o'clock tomorrow morning.

(Whereupon, at 4:12 p. m., the committee recessed, to reconvene at 10 a. m., the following day.)

FHA INVESTIGATION

WEDNESDAY, SEPTEMBER 1, 1954

UNITED STATES SENATE,
BANKING AND CURRENCY COMMITTEE,
Los Angeles, Calif.

The committee met, pursuant to recess, at 10 a. m., Senator Homer E. Capehart (chairman) presiding.

Present: Senator Capehart.

Also present: William Simon, general counsel; T. T. Kenney, assistant general counsel; and John A. Bard, accountant, FHA investigation.

The CHAIRMAN. The committee will please come to order.

I have a very distressing announcement to make this morning. Senator Maybank, of South Carolina, who served as chairman of this committee for many, many years, and who has been the ranking Democratic member since I have been chairman—I served as the ranking Republican member for many years while he was chairman of the committee—and for the past several years he has been serving as ranking minority member while I have been chairman—Senator Maybank died last night. I am going to leave here in the morning and go to Charleston, S. C., as the chairman of the senatorial committee.

That is the committee of Senators who will be authorized by the Vice President of the United States to attend the funeral.

Senator Wallace Bennett, of Utah, will arrive here this afternoon or tomorrow morning to serve as acting chairman of this committee until I can return from Senator Maybank's funeral.

I want to say that Senator Maybank was one of those rare individuals who has made a great Senator. He had the capacity for understanding and depth of conscience that made him a great Senator and a great individual. It has been a great pleasure to have worked with him over the past 10 years.

We are going to miss him in the committee, and we are going to miss him in the Senate. He was a young man. He was only 54 years old. He died from a heart attack at about 12 o'clock last night.

I will be leaving here in the morning and will not return until possibly Saturday. I will fly back to Charleston, S. C., and return. Senator Bennett will be presiding tomorrow and on Friday. We hope to close our hearings here on Friday of this week.

We have quite a number of witnesses yet to hear. We will give you our witnesses for tomorrow a little later this afternoon.

Our first witness this morning will be Mr. Ben Weingart, of the Consolidated Hotels of California.

Mr. Weingart, will you please come forward.

Mr. Weingart, will you please be sworn; do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing out the truth, so help you God?

**TESTIMONY OF BEN WEINGART, CARSON PARK, LOS ANGELES,
CALIF., ACCOMPANIED BY FRED HOROWITZ, COUNSEL, AND MISS
ESTHER HAY, ACCOUNTANT**

Mr. WEINGART. I do.

The CHAIRMAN. Thank you, sir.

If you will give your full name and address to the reporter, and the gentleman with you is your attorney, I believe, and if he will give his name and address we will appreciate it very much.

Mr. WEINGART. Ben Weingart—

The CHAIRMAN. This is off the record.

(Discussion off the record.)

The CHAIRMAN. Give your name and address, please.

Mr. WEINGART. Ben Weingart, 1301 Wilshire Boulevard.

Mr. HOROWITZ. My name is Fred Horowitz. My office address is in the Chapman Building. That is in this city.

The CHAIRMAN. You may proceed, Mr. Counsel.

Mr. SIMON. Mr. Weingart, what is your business?

Mr. WEINGART. I am in several businesses, but my main business is operating hotels and apartments.

Mr. SIMON. Have you been connected with or interested in FHA-insured mortgage projects since the war?

Mr. WEINGART. I have.

Mr. SIMON. What is the total amount of FHA-insured mortgages that you have had an interest in since 1946?

Mr. WEINGART. I do not know. The books and records are here, and if you will ask the auditors they would be glad to give it to you.

Mr. SIMON. Do you have any idea, Mr. Weingart, what the total amount is?

Mr. WEINGART. No, sir; I do not.

Mr. SIMON. Is it \$50 million?

Mr. WEINGART. It may be \$50 million, and it may be \$200. I do not know the exact amount.

Mr. SIMON. Do you have any idea whether it is closer to \$200 million than it is to \$50 million?

Mr. WEINGART. No, sir; I do not.

Mr. SIMON. You don't have any idea? That is a lot of money.

Mr. WEINGART. Well, I think it is.

Mr. SIMON. And you don't know whether it is closer to \$50 million or \$200 million?

Mr. WEINGART. I could not tell you because we have businesses that are not FHA.

Mr. SIMON. Were you interested in the Carson Park project?

Mr. WEINGART. Yes, sir.

Mr. SIMON. Was the mortgage there \$39,973,700?

Mr. WEINGART. From the record that the auditors gave me up to date, Carson Park was \$32,108,550.

Mr. SIMON. Do you know how much the mortgage was that FHA committed itself on? Do you know what the commitment was?

Mr. WEINGART. I do not know. It hasn't been finished yet, Carson Park.

Mr. SIMON. You don't have any idea how much the FHA commitment was for?

Mr. WEINGART. I do not.

The CHAIRMAN. What percentage of that project do you own? Or do you own all of it?

Mr. WEINGART. No, sir; I do not. I do not know——

The CHAIRMAN. What percentage do you own?

Mr. WEINGART. I do not know. The books have the records.

Mr. SIMON. Do you own 10 percent or 90 percent?

Mr. WEINGART. I do not know.

Mr. SIMON. Do you know whether it is closer to 10 percent than it is to 90 percent?

Mr. WEINGART. That I would not know, as there were several companies.

The CHAIRMAN. Mr. Weingart, here is a \$39 million FHA project, and you are an owner of it or part owner of it and you haven't the slightest idea whether it is 10 percent or 90 percent?

Mr. WEINGART. Senator, this is not one project. There are several projects in there.

The CHAIRMAN. All right. The projects, then. What percentage do you own?

Mr. WEINGART. I could not tell you. The books and records are here.

The CHAIRMAN. Who are the owners, yourself and who else?

Mr. WEINGART. There are different stockholders.

The CHAIRMAN. Who are the chief stockholders?

Mr. WEINGART. I couldn't tell you all of them. The chief stockholders are Mr. Boyer and myself.

The CHAIRMAN. What percentage do you own?

Mr. WEINGART. I do not know.

The CHAIRMAN. What percentage does Mr. Boyer own?

Mr. WEINGART. I do not know.

The CHAIRMAN. What do you know?

Mr. WEINGART. What the records show, and what the bookkeepers hand me.

Mr. SIMON. Mr. Weingart, did you tell us yesterday that your FHA-insured mortgages were well over \$100 million? Not yesterday, but the day before yesterday?

Mr. WEINGART. I do not know whether I said the FHA mortgages. I think the question——

Mr. SIMON. My question is whether you told us day before yesterday, that your FHA-insured mortgages were well over \$100 million?

Mr. WEINGART. They may be.

Mr. SIMON. Are they well over \$100 million?

Mr. WEINGART. I could not tell you. The records will show, and if the auditors are here, and if you will ask them they will be glad to get the books out and give you exact figures.

Mr. SIMON. What has changed the situation since Monday? Has anything changed since Monday?

Mr. WEINGART. Nothing that I know of.

Mr. SIMON. Because on Monday you said you had well over \$100 million of FHA-insured mortgages.

Mr. WEINGART. I might have gotten it mixed up with other businesses, or other mortgages other than FHA.

The CHAIRMAN. Is your bookkeeper present?

Mr. WEINGART. Yes, sir.

The CHAIRMAN. Where is he?

Mr. WEINGART. There are several auditors here.

The CHAIRMAN. I think we will just swear in your auditor sitting out there and ask him pointblank if he can tell us.

Mr. HOROWITZ. Can we get them all up here and they will be able to help? There are several of them.

Mr. SIMON. Who is the chief one?

The CHAIRMAN. Who is the chief auditor?

A VOICE. Mr. Weingart's personal one, Esther Hay.

The CHAIRMAN. Do you swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

Miss HAY. I do.

The CHAIRMAN. What is the total amount of FHA mortgages Mr. Weingart is interested in?

Miss HAY. About \$75 million.

Mr. SIMON. Are you interested in the Lakewood Mutual project?

Mr. WEINGART. According to—

Mr. SIMON. I asked you if you were interested in the project?

Mr. WEINGART. Probably—Lakewood Park Mutual Homes, is this?

Mr. SIMON. Yes.

Mr. WEINGART. I believe I am.

Mr. SIMON. Do you know whether you are?

Mr. WEINGART. No; I do not, other than what the books would show.

Mr. SIMON. Do you know whether the mortgage there was \$30,243,000?

Mr. WEINGART. What the auditors have handed me says Lakewood Park Construction Co., FHA projects, their numbers, Lakewood Park Mutual Homes, 1 through 15, built by Lakewood Park Construction Co.—

Mr. SIMON. My query is, do you know whether the mortgage is \$30,243,000?

Mr. WEINGART. In these captions I have read, what they have given me, is \$30,243,300.

Mr. SIMON. Is there any doubt in your mind but what that is the amount of the mortgage?

Mr. WEINGART. I couldn't tell you. I don't have anything to do with these details.

Mr. SIMON. Are you interested in the Stocker-Cranshaw group?

Mr. WEINGART. Yes, sir.

Mr. SIMON. Is the mortgage there \$10,066,000?

Mr. WEINGART. According to the data that has been given to me by the auditors, the completed cost is \$10 million—

Mr. SIMON. I am talking about the mortgage, now, not the cost.

Mr. WEINGART. Mortgage, pardon me.

Mortgage is \$10,066,300.

Mr. SIMON. There is no doubt in your mind that is the correct amount, is there?

Mr. WEINGART. That is correct.

Mr. SIMON. Are you interested in the Lakewood Gardens project?

Mr. HOROWITZ. What was that name?

Mr. SIMON. Lakewood Gardens, with a \$12,520,000 mortgage.

Mr. WEINGART. I could not tell you. I think you might be mistaken in that.

Mr. SIMON. I might be. I am trying to find out from you.

Mr. WEINGART. I do not know.

Mr. SIMON. You don't know whether you have any interest in that one or not?

Mr. WEINGART. I don't know by the names. We have a number of companies, and I couldn't tell you the names, as far as the details. I think you might be mistaken in that name.

Mr. SIMON. It is a section 213 sales-type project located at Long Beach, Calif. There are 57 projects. The FHA commitment is \$12,521,000, and the applications are signed—the FHA applications are signed by Louis H. Boyer.

Mr. WEINGART. Mr. Boyer would have to answer those questions because those details were left to him.

Mr. SIMON. My question to you is whether you have any interest in that project.

Mr. WEINGART. I do not know unless the books would show.

Mr. SIMON. You don't know—

The CHAIRMAN. Mr. Weingart, are you telling me—here we are, the Federal Government, guaranteeing you, say, \$75 million worth of FHA mortgages. Our records show it is about \$112 million, and you mean to tell me that \$75 million, taking your figure, or \$112 million, as we think it is, and you haven't the slightest idea? You know nothing about it? And if these projects go sour, you are going to hand them back to the Federal Government?

Mr. WEINGART. Pardon me—

The CHAIRMAN. You know nothing about it?

Mr. WEINGART. Pardon me, Senator. These projects are sold individually as houses. They are not large projects. They are individual houses.

The CHAIRMAN. Don't say that, because you have got 2 projects here that are cooperatives than ran \$39 million.

Mr. SIMON. And you have the Stocker-Cranshaw group of over \$10 million, a section 608, which you still own; is that right?

Mr. WEINGART. Just remember this—

Mr. SIMON. Is that right, Mr. Weingart, that the Stocker-Cranshaw group is a mortgage in excess of \$10 million, and you still own the buildings?

Mr. WEINGART. I do not own the buildings; those buildings are owned by a corporation of which I am a stockholder.

The CHAIRMAN. You are going to stand on technicalities, now; the difference between a stockholder—

Mr. SIMON. Your company still owns them?

Mr. WEINGART. Not my company. It is a company of which I am a stockholder.

The CHAIRMAN. What percentage of the stock do you own in that company?

Mr. WEINGART. I do not know. The books are here. I do not know.

Mr. SIMON. You personally are in no way liable on the mortgages?

Mr. WEINGART. That is right.

Mr. SIMON. If any one of those projects goes bad the Federal Government gets it back; is that right?

Mr. WEINGART. No, sir.

Mr. SIMON. What happens if they go bad?

Mr. WEINGART. I would make it good, which I have always done and have never foreclosed a mortgage since I have been in business.

The CHAIRMAN. Why don't you endorse them? Will you endorse them tomorrow?

Mr. WEINGART. No, sir; I will not.

Mr. SIMON. Why won't you endorse them if you are going to make them good?

Mr. WEINGART. That is my privilege.

The CHAIRMAN. Why do you have all of this multiplicity of corporations, then, if you intend to make all of these mortgages good?

Why do you have them? How many corporations do you have in which FHA is involved?

Mr. WEINGART. That I am interested in?

The CHAIRMAN. Yes.

Mr. SIMON. That have FHA mortgages.

Mr. WEINGART. I would say offhand two or three hundred.

The CHAIRMAN. Why do you have two or three hundred corporations if you are going to make them good? Why don't you just have one corporation and stand behind it?

Mr. WEINGART. Mr. Boyer takes care of those details. I leave it to him. He runs it.

Mr. SIMON. Did you tell him you would be glad to personally make sure that these mortgages were paid?

Mr. WEINGART. I did not.

Mr. SIMON. Regardless of what you now think you will do, isn't it a fact that if one of those mortgages goes bad the Federal Government takes it back unless you at that time decide that you will make it good?

Mr. WEINGART. That is correct.

Mr. SIMON. No obligation on you to make it good?

Mr. WEINGART. That is correct.

Mr. SIMON. You can make up your mind as of the time each one goes sour whether you are going to let the Government take it back or whether you are going to keep it?

Mr. WEINGART. On the projects, that is correct.

Mr. SIMON. Let us go to the Stocker-Cranshaw group of mortgages.

The Federal Government there guaranteed \$10,066,300 of mortgages; is that right?

Mr. WEINGART. That is correct.

Mr. SIMON. They were guaranteed under section 608 of the Housing Act; is that correct?

Mr. WEINGART. As far as I know.

Mr. SIMON. Do you know whether section 608 of the Housing Act provides that the mortgage cannot exceed 90 percent of the Commissioner's estimate of cost?

Mr. WEINGART. I do not know.

Mr. SIMON. Did you know that at the time these mortgages were made?

Mr. WEINGART. I did not. I did not handle any details.

The CHAIRMAN. What did you do?

Mr. WEINGART. I purchased land, arranged for the original finances with the corporations, and that was all. The rest of it was run by Mr. Boyer.

Mr. SIMON. Mr. Weingart, let me read you one sentence of the statute, section 608 of the National Housing Act:

The mortgage shall involve a principal obligation in an amount not to exceed 90 percent of the cost which the commissioner estimates will be the net cost of the completed property or project, including the land.

Did you know that was the law?

Mr. WEINGART. No, sir.

Mr. SIMON. Yet you asked the Federal Government to guarantee \$10 million worth of mortgages under that section?

Mr. WEINGART. Mr. Boyer took care of all the details, and I had—and when he told me this was it, I took it for granted, and that is the way I did business.

Mr. SIMON. In 1947 the Congress amended that law, and in the 1947 amendment the Congress provided, and I quote from the act:

Title VI of the National Housing Act, as amended, shall be employed to assist in maintaining a high volume of new residential construction, without supporting unnecessary or artificial costs. In estimating these current costs for the purpose of said title, the Federal Housing commissioner shall therefore use every feasible means to assure that such estimates will approximate as closely as possible the actual costs of efficient building operations.

Did you know that that was in the law?

Mr. WEINGART. No, sir.

Mr. SIMON. Did you know that in 1947 Congress amended the Housing Act to put that in?

Mr. WEINGART. I have never looked at one of the laws. I have never looked at one of the acts. I never read one.

Mr. SIMON. Now, in this Stocker-Cranshaw group of mortgages, what was the completed cost of all the buildings, including the land under them?

Mr. WEINGART. According to the records that my auditors have given me, the completed cost was \$10,071,197.

Mr. SIMON. Do you know whether that is the actual cost?

Mr. WEINGART. I do not know.

Mr. SIMON. How many sets of books are kept on these costs?

Mr. WEINGART. That I could not tell you. I don't keep the books.

Mr. SIMON. I have one sheet of paper before me that you gave us on Monday which shows, as you just said, that the cost was \$10,071,000, and I have another sheet of paper that Mr. Boyer gave us that shows that the cost was \$10,019,000. Can you tell me how the numbers—

Mr. WEINGART. You will have to ask Mr. Boyer, not me. I don't know. All I know is what the auditors gave me. Anything that Mr. Boyer gave you, talk to him.

Mr. SIMON. Are there two sets of books?

Mr. WEINGART. No, sir.

Mr. SIMON. Do you know where he could get this figure of \$10,019,000 if it was any place other than where you got the figure of \$10,071,000?

Mr. WEINGART. No, sir. Evidently Mr. Boyer might have made a mistake.

Mr. SIMON. Or you might have made a mistake?

Mr. WEINGART. I didn't make a mistake. These are the figures the bookkeepers gave me that I am reading from.

Mr. SIMON. Do you know which of these is the correct figure?

Mr. WEINGART. I could not tell you, sir.

Mr. SIMON. In the \$10,071,000, who got the money for the construction of the buildings? Who was that paid to?

Was it paid to a construction company called the Stocker Cranshaw Co.?

Mr. WEINGART. I will read this:

Stocker Cranshaw Co., incorporated in January 28, 1946, dissolved May 27, 1949, built the project.

Mr. SIMON. All right. So that the construction costs were paid by these companies that got the FHA mortgages to the Stocker Cranshaw Co.; is that correct?

Mr. WEINGART. As far as I know.

Mr. SIMON. Were you a stockholder in the Stocker Cranshaw Co.?

Mr. WEINGART. I was.

Mr. SIMON. And you and Mr. Boyer were both in that, weren't you?

Mr. WEINGART. That is correct.

The CHAIRMAN. What percentage of the stock did you own?

Mr. WEINGART. Twenty and five—let's see—20.5—20½ percent.

Mr. SIMON. How much did Mr. Boyer own?

Mr. WEINGART. Mr. Boyer owned 20 percent.

Mr. SIMON. Who owned the rest of it?

Mr. WEINGART. A great many stockholders?

Mr. SIMON. Who were they?

Mr. WEINGART. I can't remember them all.

The CHAIRMAN. Does your auditor know who they were?

Mr. WEINGART. They are all on the books. There was a great many of them.

Mr. SIMON. Included in the cost of \$10,071,000, isn't there a profit of \$139,013 to your construction company?

Mr. WEINGART. It wasn't my construction company. It was the construction company of the stock of Cranshaw Co.

Mr. SIMON. Wasn't the construction company owned by the very same people that were the sponsors of the company that got the mortgage?

Mr. WEINGART. I do not know. I think that the books will show that.

Mr. SIMON. Is there any doubt in your mind but what substantially the same people owned both companies?

Mr. WEINGART. I think it was. I think—if I recall—the same stockholders in the stock of Cranshaw Co. was also the stockholders in this project, a great many stockholders.

Mr. SIMON. And out of what the right hand paid to the left hand for building these buildings there was \$139,013 profit; is that right?

Mr. WEINGART. According to this paper, we built a \$10 million project and made \$139,000 on it. That is, for building the project.

Mr. SIMON. You owned it, didn't you?

Mr. WEINGART. Who owned it?

Mr. SIMON. You owned the project, didn't you?

Mr. WEINGART. No. The company. One company owned the project, and the Stocker Cranshaw Co. were the builders.

The CHAIRMAN. They were the same stockholders and the same people?

Mr. WEINGART. As far as I know.

The CHAIRMAN. How can you make a profit building something for yourself?

Mr. WEINGART. The books will show, Senator. I don't know these details because I didn't handle them.

The CHAIRMAN. Of course that is the pattern that we are developing in this investigation all over the United States, is multiplicity of corporations—just one right on top of the other. When we get into it with the gentlemen they don't remember. They don't understand why they have a multiplicity of corporations.

Mr. WEINGART. Senator, I did not handle any of the details.

The CHAIRMAN. You just testified you had two or three hundred handling FHA mortgages.

Mr. WEINGART. The details I don't handle.

The CHAIRMAN. We are trying to find out why the pattern in the United States is that way. It doesn't happen in any other business. In most businesses you have a corporation, and that corporation owns and operates everything, but in this FHA-insured-mortgage business it is the same pattern all over the United States.

Mr. WEINGART. We have other companies—

The CHAIRMAN. There are hundreds and hundreds and thousands of little corporations, that organize a corporation to build this little project, another corporation to build this project. Why? Why do you have to organize so many corporations?

Mr. WEINGART. We do not do this in only this company. Where we are dealing with the Government we do it in other companies the same way.

The CHAIRMAN. Why do you do it when you deal with the Government when you don't do it when you deal with private individuals?

Mr. WEINGART. We do it with private individuals the same way.

The CHAIRMAN. You organize a multiplicity of corporations?

Mr. WEINGART. Where it is to our advantage, we do it.

The CHAIRMAN. In other words, you have got so many corporations you don't even know the amount of stock you own in each of them, do you?

Mr. WEINGART. That is correct.

Mr. SIMON. Mr. Weingart, I want to make sure I have got the facts right.

Treating you and your associates as a group here, the same group owned the stock in the building company that owned the stock in the company that got—the companies—that got the section 608 mortgages; is that right?

Mr. WEINGART. What company? In all of the companies, or this one you are speaking of.

Mr. SIMON. I am talking about this Stocker Cranshaw group of \$10 million in mortgages.

Mr. WEINGART. I think there were 30 stockholders.

Mr. SIMON. The same group owned the stock in the building company?

Mr. WEINGART. I believe that is correct.

Mr. SIMON. In your cost, in the item you have just given us as cost, is there \$288,600 that was paid to yourselves that you include in this item of cost?

Mr. WEINGART. Repeat that again, please.

Mr. SIMON. In the item of cost that you have given me, is there included \$288,600 that you paid to yourselves?

Mr. WEINGART. It is \$139,000.

Mr. SIMON. That is \$139,000. Is there anything else?

Mr. WEINGART. That they have given me.

Mr. SIMON. Anything else.

Mr. WEINGART. That was paid to the corporation.

Mr. SIMON. Of which the same group were the stockholders?

Mr. WEINGART. Same group was the stockholders of the project, the project numbers.

Mr. SIMON. Is there another \$148,000 paid to the same group?

Mr. WEINGART. Just a minute.

Where do you find that? I don't see it.

Mr. SIMON. I have before me a piece of paper that Mr. Boyer gave us, which shows—and the same piece of paper that you gave us shows—that Boyer received a fee of \$23,750. Do you have that?

Mr. WEINGART. That is correct, that he received it. I didn't.

Mr. SIMON. He is in this group, isn't he?

Mr. WEINGART. He was the manager of the group and the builder.

Mr. SIMON. He was the man who did all your thinking on this, wasn't he?

Mr. WEINGART. I would say so.

Mr. SIMON. Other people whom you haven't named here, but in the same group, got fees of \$75,841; is that right?

Mr. WEINGART. That includes \$4,591 paid to Alhambra Gardens for services.

Mr. SIMON. That includes \$47,500 paid to a corporation in which you owned half the stock, doesn't it?

Mr. WEINGART. Pardon me. Let us take it one at a time.

Mr. SIMON. All right.

Mr. WEINGART. It includes \$4,591 paid to Alhambra Gardens for services, and I think equipment that they used, of which I own 25 percent of the stock of that corporation, which was Alhambra Gardens.

Also included, \$47,500, paid to Edna Construction Co., in which I own 50 percent of the stock, and other persons now deceased, my associate, and I don't think it included Mr. Boyer, got \$47,500, of which paid the overhead of that company, which had the offices and did not—he didn't have any offices out to the project.

Mr. SIMON. We have now got \$139,000 and \$23,000 and \$75,000. This is \$50,000 short of my figure. Is there another \$50,000 that was paid out to you people, of which you personally got \$10,250 and Mr. Boyer got \$10,000?

Mr. WEINGART. How was that?

Mr. SIMON. Is there another \$50,000 that was paid out to this group of which you personally got \$10,250, Mr. Boyer personally got \$10,000?

Mr. WEINGART. Where do you see that on this sheet?

Mr. SIMON. I see it on this sheet marked "Item 9," that Mr. Boyer gave me. I will be glad to have you look at it.

Mr. WEINGART. I don't know anything about that. I can only repeat from the sheet that my auditors gave me.

Mr. SIMON. Could you look at Mr. Boyer's sheet and tell me if that is wrong?

Mr. WEINGART. I can't tell you what Mr. Boyer told you. You will have to talk to him.

Mr. SIMON. Can you look at that and see if it is wrong?

Mr. WEINGART. I can't tell you if it is wrong or right.

Mr. SIMON. No matter what the numbers are here you have no idea what they are?

Mr. WEINGART. No, sir.

Mr. SIMON. Except, as a matter of fact, as you read a piece of paper you don't know anything about this, do you?

Mr. WEINGART. I do not. I know certain things, but I do not know any figures other than my auditors gave it to me at this time.

Mr. SIMON. You have on this sheet of paper you are reading from, copy of which I have, a total of \$12,083,400 of FHA mortgages; is that right?

Mr. WEINGART. That is correct.

Mr. SIMON. And those projects cover 1,473 apartments; is that right?

Mr. WEINGART. That is right.

Mr. SIMON. And they are in five different projects; is that right?

Mr. WEINGART. That is right.

Mr. SIMON. And one of the projects has 70 different applications; is that right?

Mr. WEINGART. I don't know. I haven't figured them out.

Mr. SIMON. In the Stocker Crenshaw group there are five different corporations, aren't there?

Mr. WEINGART. That is right.

Mr. SIMON. Out of that \$12,083,000 of Government-insured mortgage money, if we exclude from the costs the moneys which the group paid themselves, the mortgage—the Government mortgage money—exceeded by a few dollars the total cost of all the buildings; is that right?

Mr. WEINGART. If you don't consider any overhead.

Mr. SIMON. I know. If you will exclude the moneys you paid yourselves——

Mr. WEINGART. Which was partly overhead.

Mr. SIMON. If you exclude the moneys you paid yourselves the Government mortgage money on this \$12 million worth of properties exceeded the costs?

Mr. WEINGART. Whatever this sheet shows, that is what it is. I haven't gone into these calculations like you have.

Mr. SIMON. Is that what the sheet shows?

Mr. WEINGART. I haven't calculated. I will have the auditor calculate it up and if that is correct, that is.

Mr. SIMON. Can't you tell from that sheet, Mr. Weingart, whether, excluding the moneys you paid yourselves——

Mr. WEINGART. It is not paid to myself. It is paid to a great many stockholders, not only me.

Mr. SIMON. But yourselves, I mean you plurally.

Mr. WEINGART. If the sheet shows that, and the calculations are that way, and our costs were \$12,265,000, and our mortgage was \$12,083,400, then our costs were above our mortgage.

Mr. SIMON. By \$182,000——

Mr. WEINGART. Of which a great deal of this was overhead.

Mr. SIMON. Of the \$182,000 by which your costs exceeded the mortgage, more than \$200,000 was paid to yourselves; is that right?

Mr. HOROWITZ. May I ask—

Mr. SIMON. Let him answer my question.

Is that right?

Mr. WEINGART. No. I don't know whether you are right or not until I calculate this thing up. You are putting words in my mouth, and I would ask my attorney to give me information.

The CHAIRMAN. You may ask your attorney, yes.

(There was a conference between the witness and his counsel.)

Mr. SIMON. Do you now know whether the total costs you paid yourself were less than the FHA mortgages?

Mr. WEINGART. The amount—

Mr. SIMON. Can you answer my question?

Mr. WEINGART. It has got to be answered in an explanatory way because the Government has allowed us for overhead, which these figures—

Mr. SIMON. I am perfectly happy to have you give any explanation you want, but I would appreciate it if you would first answer my question. It is a very simple question.

I am asking you whether the total cost—

Mr. WEINGART. I answer it with reservations, that this is overhead that we had to pay out, though we received it; we paid it out again for overhead, which is less than the Government said we were allowed.

Mr. SIMON. Let us get one fact at a time. Is it a fact that excluding the moneys you paid yourselves, the total costs were less than the FHA mortgages?

Mr. WEINGART. I would say no, because a lot of this money that shows paid to ourselves was paid for overhead. I know it went through us, but it was paid out.

Mr. SIMON. Let us get one question at a time. I am asking you whether, excluding the moneys you paid yourselves—and we will get in a minute to where that money went—but excluding the moneys you paid yourselves, are the total costs less than the total mortgages?

Mr. WEINGART. Excluding moneys that we paid ourselves, which includes overhead, I would say "Yes."

Mr. SIMON. All right.

The CHAIRMAN. I would like to ask a question.

This Stocker Crenshaw Co. really had no function whatsoever. It was just a name, was it not?

Mr. WEINGART. The Stocker Crenshaw Co.?

The CHAIRMAN. It had no office.

Mr. WEINGART. No.

The CHAIRMAN. It was just a name?

Mr. WEINGART. Just a name.

The CHAIRMAN. Had no office, didn't have any employees at all?

Mr. WEINGART. It was operated from the Etna Construction Co.

The CHAIRMAN. It was operated from another corporation which you and Mr. Boyer owned?

Mr. WEINGART. No, Mr. Siegal, who has passed away.

The CHAIRMAN. It was a name, and a name only?

Mr. WEINGART. Yes, sir.

The CHAIRMAN. That is the point I made a moment ago. We find in this whole FHA business all over the United States—

Mr. WEINGART. But they had an investment in there of some \$400,000.

Mr. SIMON. You got it all back, didn't you?

The CHAIRMAN. Let me finish what I wanted to say.

What we are trying to find out or one of the things we are trying to find out, in order to see if we need new legislation, is to find out why the necessity for this multiplicity of corporations. Why is it necessary to have a company such as we are talking about here that had absolutely no employees at all, but just a name? We find it all over the United States—a multiplicity.

Frankly, we have trouble getting heads or tails of this whole business because if we sit down with you gentlemen, like yourself, and others throughout the United States, you have so many corporations, so many interlocking directors, and stockholders, that it takes about 40 Philadelphia lawyers, and I don't know how many hundreds of C. P. A.'s, to figure out this whole business.

What I am trying to find out, purely from a legislative standpoint at the moment, is why? Let us get down to specific cases, because you can be helpful to us in the operations of FHA.

Why was it necessary to have the Stocker Crenshaw Co., who didn't even have an office—just a letterhead, just a name?

Mr. WEINGART. They had \$400,000 invested.

The CHAIRMAN. Why couldn't you put it—

Mr. WEINGART. You will have to ask Mr. Boyer. He handled all that.

The CHAIRMAN. If you did why couldn't you put the \$400,000 in 1 corporation to handle this whole business?

Mr. WEINGART. You will have to ask Mr. Boyer. He handled all of those projects, and I think he is very familiar with it. I think you and your counsel know it. He will be glad to answer the questions and give you the facts.

The CHAIRMAN. I was hopeful you would be able to help us. You are a very wealthy man. You admitted you are a stockholder in two or three hundred corporations that have been dealing in FHA mortgages, and you have many interests outside of that. You are a big man, and you ought to be able to tell us or give us some help on this matter.

Mr. WEINGART. That is the reason I have Mr. Boyer up here to answer those questions, to give you the information you want, and he would answer in detail. He is here to testify for the committee.

The CHAIRMAN. And you do not know the need, then, for this multiplicity of corporations?

Mr. WEINGART. I do not. Mr. Boyer handled it. Whatever he told me I took it for granted, and followed those things like I do in many companies I am interested in. I trust him. That is the way it is handled.

The CHAIRMAN. It has been amazing to us, the multiplicity of corporations.

Mr. SIMON. Mr. Weingart—

The CHAIRMAN. Let me say this: The thing that concerns us about it is that you have a multiplicity of corporations here in which the same stockholders seem to appear to own all the corporations. You are no different than they are throughout the entire United States. I don't want to leave the impression you are. We found the same thing in New York, Philadelphia, Washington, and other places.

Then you have, you say, two to three hundred of these projects, and then one of them goes sour and you give it back to the Government and keep the good ones.

Wait a minute. Let me finish.

That is the pattern. When we get through we will show that is the pattern in the United States.

For example, we had one gentleman in New York City who was supposedly the biggest builder, a man named Levitt, who made \$5 million on one project, a million on another; he couldn't remember what he made on a third one. We are talking about rental houses. The fourth one went sour. He gave it back to the Government.

Is the purpose of this multiplicity of corporations that you have so that if one goes sour you can take it and give it back to the Government and keep the good ones? Is that the purpose of it?

Mr. WEINGART. That is not the facts.

The CHAIRMAN. What is the purpose?

Mr. WEINGART. In the entire history that I have been in business—and I have many years——

The CHAIRMAN. I don't question that.

Mr. WEINGART. Never one mortgage has been foreclosed.

The CHAIRMAN. I do not know. I don't question it.

Mr. WEINGART. You will have to ask Mr. Boyer. He has all the details. He will be glad to answer all these things in detail for you, and because I do not know and Mr. Boyer is here for that purpose, to answer all the details, and we are not evading anything.

The CHAIRMAN. One of the reasons you are a witness is to find out for legislative purposes how we may stop this multiplicity of corporations, when these projects go sour, that they give that one back to the Government and keep the good ones, and another goes sour, and they give that back to the Government and keep the good ones.

I am not saying you are going to do it or have done it. I am saying you are a good example of an individual who is interested, by your own testimony, in two to three hundred projects in which FHA guaranteed the mortgages.

Remember, the Federal Government in all these projects is guaranteeing these mortgages, meaning that if they don't pay out the Federal Government must reimburse the holder of the mortgage.

Mr. WEINGART. Senator——

The CHAIRMAN. We are vitally interested, and the American people are vitally interested in it. We are soliciting your assistance and help. I am not saying you won't make good. I don't know.

Mr. WEINGART. Senator, I think you are doing a good job and I think all these questions that you ask are sensible questions, and I have brought auditors and I have brought people that know how, that handle all of them.

The CHAIRMAN. We will get to them in a few minutes.

Mr. WEINGART. They will give you in detail the answer to all these questions. I don't know. I have too many things to answer these details, and they are here——

The CHAIRMAN. I hope possibly as chief stockholder that you would have the answers.

Mr. WEINGART. I am not the chief stockholder.

The CHAIRMAN. You have great influence with all your stockholders.

Mr. WEINGART. I hope so. I think they have confidence in me the same as I have with Mr. Boyer, who runs all the projects.

Mr. SIMON. This capital you spoke about, you got that all back, didn't you?

Mr. WEINGART. I didn't put it all in. The stockholders got it back eventually.

Mr. SIMON. They got it all back?

Mr. WEINGART. That is right.

Mr. SIMON. This \$288,000 that the group paid themselves—you said some of that went for overhead. How much of that was actually paid out for overhead, attributable to these jobs?

Mr. WEINGART. That is a detail of which Mr. Boyer will be glad to give you.

Mr. SIMON. Do you have any idea whether it was \$2 or \$200?

Mr. WEINGART. I do not.

Mr. SIMON. You don't know whether it was \$2 or \$200,000?

Mr. WEINGART. I don't know. I have the auditors and bookkeepers. I don't know. There are many projects.

Mr. SIMON. Let us turn to this Carson Park project. There was an FHA-insured mortgage there of \$32 million, you say; is that right?

Mr. WEINGART. That is according to the figures they have given me.

Mr. SIMON. FHA's records show \$39,973,700. Do you know any reason for the difference?

Mr. WEINGART. The reason is that the project is not finished. We are building. We continue building, and that I presume is the total of the mortgages. You will have to ask Mr. Boyer because he is here to tell you any details in reference to that. All that I have is what they have given me on the projects that are going now.

Mr. SIMON. Now, who owns the Carson Park project? What is the name of the corporation that owns it?

Mr. WEINGART. The Carson Park projects—there are a number of corporations there also.

Mr. SIMON. What are the names of the corporations?

Mr. WEINGART. I could not tell you. There are a great many names, and we have a list of them here, and the books are here, and which they will be glad to get them for you.

Mr. SIMON. Did you say you had a list of the corporations here?

Mr. WEINGART. I haven't got them here. All the books are here. There are two truckloads out here.

Mr. SIMON. It says on this sheet of paper that you handed us, at the top "Carson Park Mutual Homes, 1 through 14." Are there 14 corporations known as Carson Park Mutual Homes?

Mr. WEINGART. I believe there are. They are here. All the books of each one of them are here.

Mr. SIMON. Do you know who the stockholders of them are?

Mr. WEINGART. I don't know all the stockholders; no.

Mr. SIMON. How much stock do you own in Carson Park Mutual Homes No. 1?

Mr. WEINGART. I do not know.

Mr. SIMON. Do you know whether it is 10 percent or 90 percent?

Mr. WEINGART. I do not.

Mr. SIMON. It says on this sheet of paper that the capital investment was \$315,000; is that right?

Mr. WEINGART. That is what it says.

Mr. SIMON. Who put up that \$315,000?

Mr. WEINGART. I do not know. I think the Investors Diversified Services put it up. I am not sure.

Mr. SIMON. Did they put it all up?

Mr. WEINGART. I do not know. You will have to ask Mr. Boyer.

The CHAIRMAN. Who are the Investors Diversified Services?

Mr. WEINGART. They are a Minneapolis corporation of which they have some subsidiary. I think it is Western Project Corp., a subsidiary of Investors Diversified Services, Inc.

Mr. SIMON. Are they the people who finance these FHA projects and put up all the money in return for getting money or interest on their money plus a part of the equity? Is that their pattern?

Mr. WEINGART. I don't know the details on that. Mr. Boyer has all those details, and will be pleased to give you the details on all of that.

Mr. SIMON. Of this \$315,000 capital that was put up, how much did you put up?

Mr. WEINGART. I don't recall.

Mr. SIMON. We are told that Investors Diversified Services put up most of it; is that what you said?

Mr. WEINGART. I believe so. We furnished the know-how.

Mr. SIMON. What do you mean by most of it?

Mr. WEINGART. I don't know. The books will show. All you have to do is look at the books. They are here, and they will tell you.

Mr. SIMON. Of the \$315,000 would it be roughly right to say they put up \$300,000 and you and your group put up \$15,000?

Mr. WEINGART. I couldn't tell you whether we put up \$15,000 or \$300,000. I couldn't tell you.

The CHAIRMAN. Didn't you testify yesterday that they did put up about \$300,000?

Mr. HOROWITZ. No, Senator.

Mr. WEINGART. No.

The CHAIRMAN. Did Mr. Boyer testify to that effect?

Mr. WEINGART. I think so.

The CHAIRMAN. Mr. Boyer testified they put up about \$300,000 and you put up about \$15,000.

Mr. WEINGART. I believe it is something like that.

Mr. SIMON. Do you know how much of that \$15,000 you personally put up?

Mr. WEINGART. No, sir. The books will show.

Mr. SIMON. I take it the deal you had with Investors Diversified was that for their putting up the money they got a share of the profits in addition to the interest on their money; is that right?

Mr. WEINGART. Let me correct you. This was Western Projects Corp., a subsidiary of Investors Diversified Services.

Mr. SIMON. The same thing; isn't it?

Mr. WEINGART. No. One company is one thing, one the other.

Mr. SIMON. Isn't the Western, whatever it is, wholly owned by Investors?

Mr. WEINGART. I couldn't tell. I don't know anything about their books.

Mr. SIMON. What does a subsidiary mean?

Mr. WEINGART. A subsidiary means, as far as I know, a corporation that is controlled by the other, but it may not be entirely owned.

The CHAIRMAN. A subsidiary means wholly owned; does it not?

Mr. WEINGART. I don't know.

The CHAIRMAN. We could find it in the dictionary.

Mr. WEINGART. I couldn't tell you.

Mr. SIMON. All you know is Western is a subsidiary of Investors?

Mr. WEINGART. That is correct.

Mr. SIMON. And the Investors group, Investors Diversified and its subsidiaries, put up the money and shared in the profit; is that right?

Mr. WEINGART. As far as we know, the Western Project Corp. did.

The CHAIRMAN. All right. We will call it that.

Mr. SIMON. This sheet of paper you gave us here—

Mr. WEINGART. This is only a sheet of paper given to me, and I am reading from what my auditors gave me.

Mr. SIMON. It was handed to us by you.

Mr. WEINGART. That is correct. That is the same as mine.

Mr. SIMON. No. 2 down here talks about Investors Diversified Services, Inc., doesn't it?

Mr. WEINGART. That is correct; yes.

Mr. SIMON. All right. Now, how much money were they to get out of these profits in turn for their putting up the money?

Mr. WEINGART. That was unknown. They got a share. There was a profit. They were a partner in the deal.

Mr. SIMON. What was their share of the profit?

Mr. WEINGART. Their share in the profit, according to this—

Mr. SIMON. I don't mean how much they finally got, but what was the deal? How much were they to get?

Mr. WEINGART. I can't tell you. Mr. Boyer has those details in the books.

Mr. SIMON. Would they get 50 percent of the profit?

Mr. WEINGART. I don't recall the amount. Whether it was 50 or less, I don't recall.

Mr. SIMON. This was a project, this Carson Park, under section 213 of the Housing Act; is that correct?

Mr. WEINGART. That is correct.

Mr. SIMON. Do you have any idea what section 213 of the Housing Act is about?

Mr. WEINGART. No, sir.

Mr. SIMON. Do you know whether it was passed to permit builders like you to promote projects like this?

Mr. WEINGART. Since Monday, when we had this hearing, I asked my attorney, Mr. Horowitz, to check up that section, which he did, and he informed me that he has the book and the pages and what the sections are, and—

Mr. SIMON. Do you personally know?

Mr. WEINGART. No.

Mr. SIMON. Let me read it to you.

Mr. WEINGART. We have it right here.

Mr. SIMON. Let me read it to you:

SEC. 213. (a) In addition to mortgages insured under section 207 of this title, the Commissioner is authorized to insure mortgages, as defined in section 207 (a) of this title, including advances on such mortgages during construction, which cover property held by (1) a nonprofit cooperative ownership housing corpora-

tion, or nonprofit cooperative ownership housing trust, the permanent occupants of the dwelling of which is restricted to members of such corporation, or to beneficiaries of such trust, or (2) a nonprofit corporation or nonprofit trust, organized for the purpose of construction of homes for members of the corporation or for beneficiaries of the trust, which corporations or trusts are regulated, or restricted for the purposes and in the manner provided in paragraphs (1) and (2) of subsection (b) of section 207 of this title.

Had you ever known before what that section provided?

Mr. WEINGART. I did not. I do now, and Mr. Horowitz probably has some additional sections that was passed by Congress, of which I would like to have you read to complement what you have said there so that it will fit this pattern.

Mr. SIMON. I am trying to find out, first, what you knew.

Mr. WEINGART. I did not know——

Mr. SIMON. Would you give me the courtesy to let me finish my question?

Mr. WEINGART. Certainly.

Mr. SIMON. I am trying to find out first what you knew at the time you filed these applications, as distinguished from what you have learned since Monday.

Mr. WEINGART. I didn't know anything. Mr. Boyer took care of it. I didn't have anything to do with it. I didn't know anything about it. He would tell me, "This is a good section," and that is all. I never read one of the books in my life.

Mr. SIMON. In order to have a section 213 project you had to have a nonprofit corporation. Did you people organize such a corporation?

Mr. WEINGART. Mr. Boyer can give you those answers and I think it would be very intelligent that he can give you intelligent answers, where I couldn't.

Mr. SIMON. Do you know?

Mr. WEINGART. No, sir.

Mr. SIMON. You also had to have at least five homeowners who were going to be cooperative owners of the project——

Mr. WEINGART. Whatever was necessary and according to the law that the FHA required, it was done and approved by the FHA and Mr. Boyer took care of those details.

Mr. SIMON. What I am trying to find out is whether this was a cooperative project sponsored by cooperative homeowners or whether it was promoted by you builders to make some money?

Mr. WEINGART. We are in business to make money, but if you will ask these details of Mr. Boyer, who is here, he will give you all those details that I do not know.

Mr. SIMON. Well, now, the original project application listed the cooperators as C. C. Roark, 8401 Tyron Avenue, Van Ness, Calif. Do you know him?

Mr. WEINGART. Yes, sir.

Mr. SIMON. Who is he?

Mr. WEINGART. He is one of the employees down there at the company.

Mr. SIMON. At your company?

Mr. WEINGART. At one of these companies. Not my company. It is one of these. I don't know which payroll he is on, but he is one of these companies.

Mr. SIMON. The next cooperator is listed as L. P. Marlo, Jr., 1919 Roxbury Road, San Marino, Calif.

Mr. WEINGART. I do not know him.

Mr. SIMON. You never heard of him before?

Mr. WEINGART. No, sir.

Mr. SIMON. The next one is Gerald J. Kinder, Jr., 1414 Peerless Road, Los Angeles.

Mr. WEINGART. I never heard of him.

Mr. SIMON. The next one is Jesse P. Guyer, Jr., 13226 Helmer Drive, Whittier.

Mr. WEINGART. Never heard of him.

Mr. SIMON. The next is Horace W. Anderson, 1147 Burnwall, Norfolk, Calif.

Mr. WEINGART. Never heard of him.

Mr. SIMON. Do you have any idea, Mr. Weingart, whether these five people were interested in forming a cooperative corporation for the purpose of promoting homes for themselves?

Mr. WEINGART. I do not.

Mr. SIMON. Or whether they were strawmen for your business enterprise?

Mr. WEINGART. Mr. Boyer took care of all those details, and I paid no attention to them.

Mr. HOROWITZ. Counsel, and Senator, with the permission of both of you, I should like very much, in the light of the questions that were put at the hearing as to legislative intent, to call attention to the United States Code Congressional Service for the 81st Congress, 2d Session of 1950, and volume 2, page 2040, the legislative history clearly states that—

A nonprofit corporation or trust building homes for transfer to its members would, under this new section, 213, be given advantage of an insured mortgage.

In other words, the legislative intent is clearly indicated that in the new legislation, it was to be done.

Mr. SIMON. What was to be done?

Mr. HOROWITZ. That they could build homes to be transferred to the members. In other words—

Mr. SIMON. Of course.

Mr. HOROWITZ. In other words, it would be individually owned.

Mr. SIMON. Of course.

Mr. HOROWITZ. In our discussion the other day it was indicated that perhaps that wasn't to be so.

Mr. SIMON. There is no question.

Mr. HOROWITZ. If that was the thought, I wanted to correct it.

Mr. SIMON. No question but what Congress intended that a lot of people who wanted to live in homes could get together and form a noncooperative corporation and build the homes and later end up owning their own homes, but it was not intended for builders to use it as a venture to make a profit.

Mr. HOROWITZ. In that I would like to call—

The CHAIRMAN. Another reason why you are a witness and Mr. Boyer will be later is that we are checking this particular feature of section 213, which is the cooperative title, to see how widespread it has been used by builders and promoters to make money rather than by real people—real cooperators. I mean by that, a group of people getting together and building their own houses for nonprofit. There is a lot of difficulty.

Frankly, that is one of the reasons why we are interested because your case here, of these Carson Park Mutual Homes, runs about 30—

Mr. HOROWITZ. \$60 million.

The CHAIRMAN. About \$60 million in the 2 projects.

Mr. WEINGART. That is right.

The CHAIRMAN. And you built these two projects as a corporation or series of corporations, to make a profit out of them, and we can't find any semblance of any cooperative at all. We can't find any semblance in any of your transactions here to show that it was ever intended to be a nonprofit organization, or that the people that bought the homes were to have advantage of it from a cooperative standpoint. We want you to straighten us out if we are wrong.

Mr. WEINGART. I think you will be agreeably enlightened when Mr. Boyer tells you the facts. He will be here and enlighten you a great deal.

Mr. HOROWITZ. May I call your attention also to page 2108 of this legislative history in which it states that—

For example, the cooperative or similar nonprofit organization—

Mr. SIMON. Cooperative or similar nonprofit.

Mr. HOROWITZ. That is right—

eliminates charges to cover the sponsors' project—

and then it adds—

as distinguished from the profit and overhead of the general contractor who built the housing and which, of course, is also present in the case of housing projects of cooperatives.

Indicating that there was to be a contractor who would make a profit.

Mr. SIMON. Precisely, but let us get to that right now.

Who controlled the cooperative corporation, this nonprofit corporation—

Mr. WEINGART. You will have to ask Mr. Boyer. I do not know any of the details.

Mr. SIMON. I would be terribly grateful if you would let me finish my question.

Who controlled the cooperative corporation on the day it entered into the contract with your building corporation, and they decided how much one was going to charge the other?

Mr. WEINGART. I do not know. You will have to ask Mr. Boyer. I think he will enlighten you and be glad to tell you.

Mr. SIMON. Don't you know your group controlled them both and you were negotiating with yourselves?

Mr. WEINGART. I know of no such thing.

The CHAIRMAN. That is true. We seem to know more about your business than you do.

Mr. WEINGART. You probably do. You probably haven't got as many businesses as I have got.

Mr. SIMON. You don't know who it was that your building company negotiated with to fix the price that you were going to charge?

Mr. WEINGART. I do not.

Mr. SIMON. You see, as Mr. Horowitz pointed out, there is no doubt Congress intended that these cooperators could get together and form a cooperative corporation and then sign a contract with a building

company to build the building and, of course, the building company would make a profit on it. What you had here, you were sitting on both sides of the table.

The CHAIRMAN. That is one of the reasons why you are a witness and we are looking into that all over the United States. We are finding a pattern of where cooperative housing, which was intended to be nonprofit, for the benefit of the homeowners, has been practically taken over by what we call builders or promoters who have gone into and promoted this sort of thing, and it has gotten completely away from the cooperative idea.

Mr. HOROWITZ. Senator, may I call your attention to the fact that when these cooperatives were built in this fashion they actually had a profit, an average profit of \$500 a house less than they did when they built a normal section 203, by reason of the way the FHA assistant commissioner set this up.

The CHAIRMAN. May I call your attention to the fact also that the Federal Government under cooperative housing advances all the money or will advance all the moneys for construction, and then guarantees the mortgage in the end, and you have already testified here that your group put up only about \$15,000 and we are going to show a little later how much profit you made out of it.

Mr. HOROWITZ. Senator, actually the Federal Government didn't put up the money for the building of these. The diversified—

The CHAIRMAN. The Investors people did.

Mr. SIMON. The Government guaranteed it.

The CHAIRMAN. The Government guaranteed it as they went along. The Federal Government doesn't put up any money. It simply guarantees the money. You borrow the money from the banks and insurance companies.

Mr. SIMON. While we are talking about the profit, Mr. Weingart, what was the profit of your group on this Carson Park project?

Mr. WEINGART. On Carson Park, the estimated profit to the stockholders and Weingart—estimated profit, because this has not been finished yet—is \$435 a house.

Mr. SIMON. No. What is the total profit now?

Mr. WEINGART. \$435 a house, divided—it is 1 million—

Mr. SIMON. Let us read it. You have it right in front of you. It says \$1,289,836, doesn't it?

Mr. WEINGART. That is correct, and broken down in houses, \$435 a house.

Mr. SIMON. But it is \$1,298,836 profit on your \$15,000 investment; is that right?

Mr. WEINGART. On 2,983 houses.

Mr. SIMON. Will you answer my question?

Mr. WEINGART. Yes, sir; that is correct, what you read, but I would like to read this also. I break it down for the houses.

Mr. SIMON. Is it \$1,298,836 profit to your group on the \$15,000 investment?

Mr. WEINGART. No, no. I don't think so.

Mr. SIMON. Let us take—

Mr. WEINGART. It is on the money we borrowed, too.

Mr. SIMON. Did you borrow a dime here?

Mr. WEINGART. I guaranteed it, personally.

Mr. SIMON. Did you personally guarantee Investors?

Mr. WEINGART. Yes, sir. We guaranteed Investors. We guaranteed Investors.

Mr. SIMON. You got a personal guaranty of Investors?

Mr. WEINGART. We had a personal guarantee to the FHA——

Mr. SIMON. I am talking about Investors Syndicate. Did you guarantee Investors Syndicate a dime?

Mr. WEINGART. Yes. I have guaranteed Western Projects. When they put up the money Mr. Boyer and I personally guaranteed them against loss.

Mr. SIMON. Let us get to them. They got 4 percent interest on their money?

Mr. WEINGART. I do not know the details. All I know I was guaranteed.

Mr. SIMON. Did you pay them 4 percent on their money?

Mr. WEINGART. I don't remember what we paid.

Mr. SIMON. Did you pay them interest on the money?

Mr. WEINGART. I don't know how it was paid; whatever was done, it is the details on the books.

The CHAIRMAN. Do you mean to tell me that you guaranteed these people, what was it, something like \$18 million, and didn't even know what the interest was or any of the details we are asking you questions about?

Mr. WEINGART. No, sir; I do not know the details.

The CHAIRMAN. You just guaranteed \$18 million and don't know the details?

Mr. WEINGART. Just a minute. I know that I guaranteed the Western Project Corp. from any loss.

Mr. SIMON. Let us go back to this.

Mr. WEINGART. What the amount was, I don't know, but our personal guaranty is there in the records.

Mr. SIMON. I am just asking you questions from the sheet of paper that you handed me. I have no knowledge whether it is true or not. I am just taking your sheet of paper.

Mr. WEINGART. O. K. That was given to me by my auditors.

Mr. SIMON. Do you think it is true?

Mr. WEINGART. I think whatever is on this paper is correct.

Mr. SIMON. Investors Syndicate was paid how much as a profit?

Mr. WEINGART. \$1,056,981.

Mr. SIMON. Now, was that in addition to interest on their money?

Mr. WEINGART. That I could not tell you.

Mr. SIMON. Do you know whether they got 80 percent interest on their money or 40 percent interest on their money?

Mr. WEINGART. I do not know.

Mr. SIMON. Was that in addition to a 2½-percent service fee on the entire mortgage?

Mr. WEINGART. I do not know.

Mr. SIMON. Did you hear Mr. Boyer say just day before yesterday that that \$1 million was in addition to 2½-percent service fee and 4-percent interest on their money?

Mr. WEINGART. I heard him say something about 1½ percent and some additional 1 percent.

Mr. SIMON. One and a half and one make make two——

Mr. WEINGART. Well——

Mr. SIMON. Just a minute. Don't 1½ and 1 make 2½?

Mr. WEINGART. I don't know. That is what Mr. Boyer said. If he said it that is it. That is the only knowledge I have at that meeting, which I heard.

Mr. SIMON. We will be very technical. According to you Mr. Boyer is the only one who knows about these; is that right?

Mr. WEINGART. I don't know who else knows it, but I know he knows it.

Mr. SIMON. Very well, and you did hear Mr. Boyer say they got 4 percent interest on their money?

Mr. WEINGART. I don't recall hearing that, or what the amount was.

Mr. SIMON. You didn't hear him say that?

Mr. WEINGART. I might have heard it. I forgot it.

Mr. SIMON. Did you hear him say they got 1½ and 1 percent service charge?

Mr. WEINGART. I heard him say something about that.

Mr. SIMON. That would be 2½ percent on roughly \$33 million, wouldn't it?

Mr. WEINGART. I presume that is right. I don't know.

Mr. SIMON. In addition to all that they got \$1,056,000 fee; is that right?

Mr. WEINGART. \$931 profit they got out of it.

Mr. SIMON. \$1,056,000, isn't that what it says?

Mr. WEINGART. \$1,056,981.

Mr. HOROWITZ. You misread it.

Mr. SIMON. Call it what you want. They got a million dollars plus the 2½ percent, plus the 4 percent return on their money.

Mr. WEINGART. All I know is what Mr. Boyer testified, and the other is what I am reading from this paper.

Mr. SIMON. All you people did was to put up \$15,000 and guarantee Investors on something; is that right?

Mr. WEINGART. We did a hell of a lot of work.

Mr. SIMON. What work did you do?

Mr. WEINGART. We built the building. We had the organization that built the building.

Mr. SIMON. Ben Weingart, what did you do?

Mr. WEINGART. I got Western Project Corp. interested in it, made the contract, and bought the stock.

Mr. SIMON. I see. What did you do besides getting Investors Services or Western interested?

Mr. WEINGART. What did I do?

Mr. SIMON. Yes.

Mr. WEINGART. Whatever they might ask me to do. We had conferences once in a while. They might talk to me about things, which is right back near my office.

Mr. SIMON. Mr. Boyer did the work?

Mr. WEINGART. He did the managing and ran the whole thing.

Mr. SIMON. In addition to this \$1,298,000 profit, he was paid a fee of \$44,745, wasn't he?

Mr. HOROWITZ. Counsel, didn't you mean—I mean you misstated yourself.

Mr. SIMON. No. In addition to the \$2,898,800 profit——

Mr. WEINGART. He got a fee.

Mr. HOROWITZ. That is profit to somebody else, not Boyer. You are mixing the two together.

Mr. SIMON. It says here, Weingart, Boyer, and others, on your piece of paper.

Mr. WEINGART. Boyer's fee, \$15 a house, \$44,745. That is correct.

Mr. SIMON. That was for the work Mr. Boyer did?

Mr. WEINGART. That is his personal salary, I presume.

Mr. SIMON. I take it his personal salary was for the work he did; is that right?

Mr. WEINGART. Besides his interest in the project.

Mr. SIMON. Yes.

The CHAIRMAN. Let me ask you this question: Do you and Mr. Boyer draw salaries from all these two to three hundred corporations?

Mr. WEINGART. I don't draw any salary from any company.

The CHAIRMAN. Does Mr. Boyer draw compensation from these two to three hundred corporations, compensation from each?

Mr. WEINGART. No, the total is \$15 per house.

The CHAIRMAN. You mean on this particular project?

Mr. WEINGART. Which includes all of these different companies, 1 to 14.

The CHAIRMAN. I am talking about all the other projects.

Mr. WEINGART. He draws a fee. On some of these he does and some he doesn't. I don't know. I don't know the details.

Mr. SIMON. Now, it says on this piece of paper that you have given us "Raw land costs, \$2,484,295." Is that right?

Mr. WEINGART. That is correct.

Mr. SIMON. Who did Carson Park buy the land from?

Mr. WEINGART. I don't remember the people who they bought their land from.

Mr. SIMON. Wasn't it a fellow named Ben Weingart?

Mr. WEINGART. Me?

Mr. SIMON. Yes.

Mr. WEINGART. If it was, I don't think it was. If it was it only went through escrow where I had put up some money, which sometimes I do that.

Mr. SIMON. How much land went in here?

Mr. WEINGART. I couldn't tell you; Mr. Boyer can give you all the details.

Mr. SIMON. Didn't he say the other day 600 acres?

Mr. WEINGART. I don't remember.

He might have included in those 600 acres two of them.

The CHAIRMAN. Did they buy the land from you?

Mr. WEINGART. Personally?

The CHAIRMAN. Personally or otherwise.

Mr. WEINGART. Not that I recall.

Mr. SIMON. Did you make a profit on the sale of the land of this project?

Mr. WEINGART. Not that I know of.

Mr. SIMON. Did you hear Mr. Boyer say on Monday that 600 acres went into this tract out of a 3,200-acre tract you purchased?

Mr. WEINGART. Well, I don't know. Is this Lakewood Park Construction?

Mr. HOROWITZ. No, Carson.

Mr. WEINGART. I think Mr. Boyer has got mixed up. That Carson Park was not part of Lakewood. I think it was a separate company and wasn't land of the 3,200 acres. I am sure of that.

Mr. SIMON. This Carson Park was not in the 3,200 acres?

Mr. WEINGART. No, sir; a separate piece.

The CHAIRMAN. What did you pay for this separate piece of land?

Mr. WEINGART. The raw land, \$2,484,000.

Mr. SIMON. Is Lakewood part of that 3,200-acre tract?

Mr. WEINGART. Lakewood Park?

Mr. SIMON. Is that part of the 3,200-acre tract?

Mr. WEINGART. I think some of that was.

Mr. SIMON. Was it 600 acres that went into Lakewood?

Mr. WEINGART. I don't know the number of acres. I couldn't tell you.

Mr. SIMON. Mr. Boyer did say 600 acres.

Mr. WEINGART. I don't remember what he said.

Mr. SIMON. Does that 600 acres go in here?

Mr. WEINGART. I do not know whether it was or not.

Mr. SIMON. Mr. Weingart, you understand we know nothing about this matter except as we can get it out of you.

Mr. WEINGART. Pardon me just a moment.

(There was a conference between the witness and his counsel.)

Mr. WEINGART. Counsel, you are asking me some questions; Mr. Boyer is here. He can give you the exact answers as to it, and I do not know, so I think we are taking up a lot of time, which I know is very valuable to you and the Senator and all concerned, and he will be glad to answer those, and has all the details. He is here ready to testify.

The CHAIRMAN. We will call him in a few minutes.

Mr. WEINGART. Personally, I don't know.

Mr. SIMON. I would like to ask you if this rings any bells with you: If the 3,200-tract cost the sum of money that was referred to the other day—

Mr. WEINGART. What sum is that?

Mr. SIMON. About \$7½ million. As I understood it—

Mr. WEINGART. The total amount was \$9,200,000 for the corporation, and then some was taken out.

Mr. SIMON. \$800,000 off of that for the land in the Imperial Valley; is that right?

Mr. WEINGART. I think so.

Mr. SIMON. That would be \$8,400,000?

Mr. WEINGART. That is correct.

Mr. SIMON. Then about \$1,200,000 for waterworks?

Mr. WEINGART. I think the waterworks was around \$900,000. I think they were mistaken on that.

Mr. SIMON. That would be exactly \$7½ million for the 3,200 acres?

Mr. WEINGART. Yes.

Mr. SIMON. If my mathematics is correct, that is \$2,343 an acre, and if my mathematics continues to be correct, the price that you charged this group was \$4,600 an acre. The difference being about \$2,300 an acre, which would appear to be profit.

Mr. WEINGART. I think, Counsel, that you have not taken into consideration the wasteland, and the improvements and things that were put in there that went into the difference between your calculations and the facts.

Mr. SIMON. The fact is that you got about——

The CHAIRMAN. That would be possible, and we will consider that.

Mr. SIMON. You got about \$4,650 an acre for the land. How much did it cost you?

Mr. WEINGART. You will have to look at the books, and deduct it down, and deduct the wasteland and the expenses.

Mr. SIMON. I am asking you——

Mr. WEINGART. I do not know.

Mr. SIMON. You sold the land for \$4,650 an acre. Do you know what it cost you?

Mr. WEINGART. No, sir.

Mr. SIMON. You said a minute ago you made no profit on the sale of the land to Carson Park; is that right?

Mr. WEINGART. That is correct.

Mr. SIMON. I have just had called to my attention a sheet of paper which I think you have before you labeled "Carson Park Mutual Homes, No. 1 through No. 14." Do you find that?

Mr. WEINGART. Carson Park what—yes; that is correct.

Mr. SIMON. Will you look at paragraph No. 5?

Mr. WEINGART. Yes.

Mr. SIMON (reading):

In addition, stockholders of a related corporation, with the same stockholders as Carson Park, realized \$118,485 through the sale of lands to Carson Park Homes.

Does that include you?

Mr. WEINGART. It might have. "Individual stockholders paid their own personal taxes on both of these amounts." It might have.

Mr. SIMON. Does it include you?

Mr. WEINGART. It probably does. We might have bought the land ahead.

Mr. SIMON. Then you did make a profit on the land, didn't you?

Mr. WEINGART. Probably, if that paper says so. I mean from memory, I was probably quoting, but I didn't look at the sheet when I answered that question.

The CHAIRMAN. Mr. Weingart, we will excuse you at the moment. We may want you a little later in the day or later in the week. If you will stand by we will appreciate it.

Mr. WEINGART. I am available when you want me. All you have to do is phone. I have the records and they will be available at any time.

The CHAIRMAN. We appreciate that. We will excuse you now and call Mr. Louis Boyer, your partner.

Mr. HOROWITZ. Senator, may I call attention to the fact that I got a transcript of the executive session, and I find innumerable errors in it. I just want to make that clear in the record. I started to make the corrections, but they are so numerous it is almost impossible.

The CHAIRMAN. We found the same thing, and I presume it is due to the reporters.

Mr. HOROWITZ. I am sure.

The CHAIRMAN. We will take into consideration those errors and try to correct them as best we can.

Mr. HOROWITZ. I thought I might make our position clear.

The CHAIRMAN. There is no particular point in it anyway except we certainly will take into consideration the errors.

Mr. Boyer, do you swear the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF LOUIS BOYER, CARSON PARK, LOS ANGELES, CALIF.

Mr. BOYER. I do.

The CHAIRMAN. Will you give your name and address to the reporter?

Mr. BOYER. Louis H. Boyer, 1308 Shattel Street, Los Angeles.

Mr. SIMON. Mr. Boyer, we are looking to you for all these answers on Carson Park Homes.

Mr. BOYER. I will try to cooperate to the best of my ability.

Mr. SIMON. It says here the capital investment was \$315,000. How much of that was put up by Investors Diversified Services or any of its subsidiaries?

Mr. BOYER. \$210,000.

Mr. SIMON. Your group put up, then, \$105,000; is that right?

Mr. BOYER. Not necessarily so. We are talking about Carson Park. No; I may be wrong on the \$210,000.

Mr. SIMON. How much of that \$315,000 did Investors Diversified Services put up?

Mr. BOYER. As capital investment, my guess would be \$300,000.

Mr. SIMON. And then your group put up \$15,000; is that right?

Mr. BOYER. That is right, sir.

Mr. SIMON. Now, as I understand it, Investors Diversified Services was paid 4-percent interest on all the moneys they advanced from time to time; is that right?

Mr. BOYER. Yes; on the mortgage.

Mr. SIMON. On all the moneys other than the \$300,000?

Mr. BOYER. That is correct, sir.

Mr. SIMON. The mortgage money they advanced they got 4-percent interest?

Mr. BOYER. Four percent.

Mr. SIMON. In addition, they received 2 fees of 1½ and 1 percent, totaling 2½ percent?

Mr. BOYER. They got 1½ percent on all of this amount. The 1 percent they may have got on some of it, not on all of this amount. They got 1½ on \$18 million. The total amount of mortgage you will note is \$32,108,550. They got 1½ percent on \$18,187,200. They will get and have received part of it, 1 percent on that \$18 million in addition. When the project is finished, that is. It is not all paid, it is not all finished. They did not get the 2½ percent of \$33 million. They got 1½ percent for \$18 million plus, and they will get another 1 percent of \$18 million plus.

Mr. SIMON. Do they get anything on the difference between \$18 million and \$32 million?

Mr. BOYER. Nothing.

Mr. SIMON. So their total fee will be 2½ percent of \$18 million?

Mr. BOYER. Of \$18 million; that is right, sir.

Mr. SIMON. In addition——

Mr. BOYER. Which is about \$450,000.

Mr. SIMON. About \$450,000?

Mr. BOYER. That is right.

Mr. SIMON. In addition they shared in the profits of the venture; is that right?

Mr. BOYER. That they did.

Mr. SIMON. What was the arrangement by which they got this \$1 million?

Mr. BOYER. The \$1,156,098—the estimated \$1,056,981?

Mr. SIMON. Yes.

Mr. BOYER. This is for 14 different companies.

Mr. SIMON. What was the basis——

Mr. BOYER. They were different in each company. Some companies they got little or none, some they got more, depending upon the market at the time we made the deal.

Mr. SIMON. It was a share of the profits; is that right?

Mr. BOYER. It was a share of the profits. It was a partnership arrangement with a share of the profits.

Mr. SIMON. The \$450,000 you mentioned a minute ago and the——

Mr. BOYER. Is in addition——

Mr. SIMON. In addition to the \$1,056,000 or a total of one million and a half Investors got over and above 4 percent on their money?

Mr. BOYER. That is right.

Mr. SIMON. That was for furnishing the money for the project?

Mr. BOYER. Theoretically, I believe you are right, but that isn't the way we drew the contract.

The CHAIRMAN. But the Federal Government, of course, the FHA at all times was guaranteeing the money?

Mr. BOYER. FHA, the Federal Government guaranteed the money on all these projects.

The CHAIRMAN. The Minneapolis concern got a million and a half?

Mr. BOYER. That is right, sir.

The CHAIRMAN. Yet the Federal Government was guaranteeing the whole business?

Mr. BOYER. They got \$577,000 for it, and they get money every year for it.

The CHAIRMAN. In fees?

Mr. BOYER. The Government, that is right.

Mr. SIMON. The fee to the Government for guaranteeing it was five-hundred-some-thousand dollars?

Mr. BOYER. No. That is not for guaranteeing it. That is fees for inspection, examination, issuing the commitment, and various other things.

Mr. SIMON. How much did the Federal Government get?

Mr. BOYER. As well as guaranteeing. I can figure out what the Government got for guaranteeing it. The first year they will get \$160,000.

The CHAIRMAN. This is on a \$32 million project?

Mr. BOYER. On a \$32 million project.

Mr. SIMON. Investors Syndicate for advancing the money, which the Government guaranteed—advancing Government-guaranteed money—got \$1,500,000 in addition to 4 percent on their money?

Mr. BOYER. That is right, sir.

Mr. SIMON. When the project was finished you were paid \$44,745 for your services?

Mr. BOYER. The project is not finished.

Mr. SIMON. When it is finished?

Mr. BOYER. When it is finished I will receive \$44,745 as a fee.

May I explain that answer?

Mr. SIMON. Yes.

Mr. BOYER. This started in 1951. This is almost 3 years, now. I maintain my own office. I have expenses. The only way I pay it is out of fees that I get on projects that I am interested in. This is one of the projects, and I received \$15—I will receive \$15 a house, or \$44,745, and it will be completed, I presume, at the end of this year for 3 years' work.

Mr. SIMON. In addition to paying you that fee—in addition to paying Investors Diversified the \$1,500,000 that it gets, you and Mr. Weingart and others in the group make a profit on the deal of \$1,298,936?

Mr. BOYER. Yes, sir.

Mr. SIMON. And the investment was \$15,000?

Mr. BOYER. That is correct.

May I explain a little of that, too, because it gives a wrong picture?

Mr. SIMON. Was there any other investment than the \$15,000?

Mr. BOYER. Yes; there was.

Mr. SIMON. What was that?

Mr. BOYER. One of our companies bought the land. This land was bought——

Mr. SIMON. Would you hold off the land a minute? I would like to make a separate subject.

Mr. BOYER. If I do that you will get the wrong impression and so will others, and I don't think it is fair to us.

Mr. SIMON. Let me ask you this: Excluding the land, was \$15,000 the only investment?

Mr. BOYER. No, sir.

Mr. SIMON. Let us get the other investment.

Mr. BOYER. We had investment in other corporations that don't show here that bought the land.

Mr. SIMON. I am talking about in Carson Park Homes. Did you have any other investment than the \$15,000?

Mr. BOYER. No, sir; except the contingent liability of three million some hundred thousand dollars that Mr. Weingart and myself personally and individually guaranteed the United States Government.

Mr. SIMON. You mean by that if the project wasn't completed you had guaranteed it to that extent?

Mr. BOYER. That is right. If we had missed in figuring this thing either we would have paid the loss or paid the first \$3 million loss.

Mr. SIMON. The sheet of paper you have given us I take it is accurately taken from your books?

Mr. BOYER. Yes, sir.

Mr. SIMON. It shows capital investment of \$315,000.

Mr. BOYER. Capital investment, that is all there was.

Mr. SIMON. \$300,000 was Investors Diversified and \$15,000 was your group?

Mr. BOYER. I am assuming that is right. I think that is right. It would take 10 minutes to get the exact—I mean take 2 minutes, and while we are talking wouldn't it be a good idea?

The CHAIRMAN. Why don't you during the 2 minutes have the bookkeeper give us the exact figure.

Mr. BOYER. Mr. Reed, our investment in 1 to 14 of Carson Park. He has it now.

Mr. REED. Without adding them up from the books, I can recall it is closer to \$65,000.

Mr. BOYER. Our investment was \$65,000. Ours was 65 and Investors was 250.

Mr. SIMON. Thank you, sir.

Now, let us go to the land. This sheet of paper you have given us said the raw land cost was \$2,484,000?

Mr. BOYER. That is right, sir.

Mr. SIMON. How many acres was that?

Mr. BOYER. Roughly, I would say it was 600 acres.

Mr. SIMON. Six hundred acres?

Mr. BOYER. That is roughly.

Mr. SIMON. That is \$4,000 an acre; is that right?

Mr. BOYER. It is various prices. Some of it as high as \$6,500. It wasn't bought from any one person.

Mr. SIMON. Wasn't this—I see. This is the land that you made \$118,000 profit on; is that right?

Mr. BOYER. The company that bought the land, that had invested in it over a million and a half dollars, that company made one hundred-some-thousand dollars, and it had the same stockholders as Carson Park Mutual Homes.

Mr. SIMON. That profit on the land was \$118,485?

Mr. BOYER. That is right, on over a million dollars investment.

Mr. SIMON. That profit is no part of the \$1,298,000?

Mr. BOYER. No part of the \$1,298,000.

Mr. SIMON. On Lakewood Park, that is the one where the land was part of the 238-acre tract?

Mr. BOYER. That is correct.

Mr. SIMON. There the raw land cost shown here as \$2,833,790?

Mr. BOYER. That is right.

Mr. SIMON. How many acres?

Mr. BOYER. Approximately 600, also.

Mr. SIMON. That is \$4,650 an acre; is that right?

Mr. BOYER. That is correct, sir.

Mr. SIMON. How much did that land cost your group?

Mr. BOYER. This group? It cost \$4,650 an acre.

Mr. SIMON. Who did Lakewood Park buy it from?

Mr. BOYER. They bought it from Lakewood Park, and another corporation that I am interested in, and Mr. Weingart is interested in, but many of the investors—I mean many of the interested parties of this transaction were not interested in.

Mr. SIMON. How much did that company pay for this land?

Mr. BOYER. For this particular land?

Mr. SIMON. Yes, sir.

Mr. BOYER. I don't believe it can be—without much research—figured out. In addition to what we paid for the land—and I heard your figures were in excess of \$7 million after taking out the Imperial Valley land and the water company—

Mr. SIMON. On that basis, let me say, it is \$2,400 an acre, which I appreciate has to be adjusted for wasteland or any improvements that you made. That is what I would like you to tell us.

Mr. BOYER. First, I want to tell you we spent over \$2 million on this land, and this particular land was, some of that money was spent on that, in proportion, to make flood aeriations so the water would run off. That also has to be added to the cost of the land.

Mr. SIMON. What was the cost when you sold it?

Mr. BOYER. On my books?

Mr. SIMON. Yes.

Let me say to you that you said you spent \$2 million in improving the land.

Mr. BOYER. Improving all the land. That is the 3,300 acres. That is for storm drain.

Mr. SIMON. On this sheet of paper you have given us a copy of you charged the project with \$2,990,000.

Mr. BOYER. That had nothing to do with that. That was done by Lakewood Park years before this land was bought. We bought this land 5 years ago.

Mr. SIMON. This is \$3 million of additional land improvements; is that right?

Mr. BOYER. This is additional land improvement. This is for streets, sidewalks, curbs, sewers, water, etc.

Mr. SIMON. This \$3 million of land improvements that you charged to the construction job is in addition to the land improvements you are talking about?

Mr. BOYER. That is right, sir.

Mr. SIMON. With those land improvements, what was the cost of this land as of the time you sold it to the project?

Mr. BOYER. You mean the cost to the original buyer who bought it 5 years ago?

Mr. SIMON. That is right.

Mr. BOYER. Lakewood Park?

Mr. SIMON. That is right.

Mr. BOYER. Do you want me to hazard a guess?

Mr. SIMON. Well, your best estimate.

Mr. BOYER. My best estimate—

The CHAIRMAN. Unless you have the facts.

Mr. BOYER. I haven't got those facts. I didn't think this company would suddenly get into it, because they didn't have anything to do with building any FHA insured projects.

Mr. SIMON. We asked you substantially the same questions on Monday.

Mr. BOYER. I think if you will check the record, you did not ask this question. Not of me, and I have no recollection if you asked it of Mr. Weingart.

Mr. SIMON. Mr. Boyer, we asked you what you paid for the land, and don't you recall the conversation?

Mr. BOYER. Yes, sir. I said we paid \$2,833,700. We didn't get it through a per acre basis, or did you ask for the profit?

Mr. SIMON. The record will speak for itself.

Mr. BOYER. I have no recollection. In making a guess I would say that \$3,000, \$3,500.

Mr. SIMON. At \$3,000, it would be \$1,600 an acre profit, and at \$3,500 it would be \$1,100 an acre profit; is that right?

Mr. BOYER. That is right, sir.

Mr. SIMON. And there were 600 acres?

Mr. BOYER. That is right. I think our profit was greater. You are talking now of Lakewood Park?

Mr. SIMON. Yes.

Mr. BOYER. I think their profit was greater.

Mr. SIMON. Greater than \$1,600 an acre?

Mr. BOYER. Than the figure that you calculate, \$960,000. I think it ran over a million dollars.

Mr. SIMON. At \$1,150 an acre profit, which is the smaller sum of those you mentioned, it would be a profit of \$800,000?

Mr. BOYER. I think it ran over \$1 million.

Mr. SIMON. I am curious to know, on the Carson Park sheet that you furnished us, you said that the profit on the land was \$118,000.

Mr. BOYER. That is right.

Mr. SIMON. On the Lakewood, where you now tell us the profit was over \$1 million, they didn't tell us what the land profit was. Is there any reason for that?

Mr. BOYER. Yes. We didn't have the same stockholders. It was a different corporation without the same stockholders.

Mr. SIMON. You and Mr. Weingart were the principal factors in both groups, weren't you?

Mr. BOYER. That is right, sir.

Mr. SIMON. Now, Mr. Boyer, going to section 213 of the Housing Act, I take it you know that when you have a section 213 project that technically you have a cooperative corporation, and then you may, if you wish, have a separate building company that builds the project; is that right?

Mr. BOYER. That is right, sir.

Mr. SIMON. Of course, you know the cooperative corporation must be a nonprofit corporation?

Mr. BOYER. That is right. They were all formed under the laws of California.

Mr. SIMON. Who were the cooperators who formed these—

Mr. BOYER. Employees of ours.

Mr. SIMON. They were all employees of yours?

Mr. BOYER. Yes, sir. At all times.

Mr. SIMON. Did any of them ever have any intention of living in the project?

Mr. BOYER. I think a few of them do live in the project. Which ones I don't know.

Mr. SIMON. Did you use the same people in each of these different projects?

Mr. BOYER. I believe we did to a great extent.

Mr. SIMON. And, of course, they couldn't live in more than one project?

Mr. BOYER. Definitely.

Mr. SIMON. When the cooperative corporation got organized, and had to negotiate a contract with the building corporation, there were those contracts, weren't there?

Mr. BOYER. Yes, sir; there were.

Mr. SIMON. And the contract provided that the cooperative corporation would pay the building corporation X dollars to build these things?

Mr. BOYER. That is correct.

Mr. SIMON. Who negotiated the price that went into those contracts?

Mr. BOYER. Those prices, negotiations, were made prior to the official formation of the nonprofit corporation. The figures were given to FHA, and working with FHA, FHA set the value, and had a complete layout from us of what we were doing to sell each share of stock for, and, remember, there is sale of stock here.

Mr. SIMON. Yes. At the time——

Mr. BOYER. May I finish, please?

Mr. SIMON. Yes, sir.

Mr. BOYER. Those figures were set by me, approved by FHA, and approved by every member who bought stock prior to them becoming a member of the cooperative. Without it they could not have bought the stock.

Mr. SIMON. By "approved," you mean they said "Here it is, take it or leave it?"

Mr. BOYER. That is correct.

Mr. SIMON. At the time the contracts were signed for these buildings, you and your group controlled the building corporation that was one party to the contract; is that right?

Mr. BOYER. That is right, sir.

Mr. SIMON. And you and your group also controlled the other party to the contract, which was the nonprofit cooperative?

Mr. BOYER. That is right.

Mr. SIMON. The cooperators didn't get their stock or didn't come into the picture until after the buildings were completed; is that right?

Mr. BOYER. No, sir.

Mr. SIMON. When did they take over the control of the corporation?

Mr. BOYER. Control of the corporation?

Mr. SIMON. Yes, the cooperative corporation?

Mr. BOYER. Theoretically they took over control as soon as the stock was delivered.

Mr. SIMON. When did they elect directors to the cooperative corporation?

Mr. BOYER. It so happened that the plan set up that they bought stock on the completion of the last house; everybody, through the act as passed by Congress, everybody moves in at once, or gets possession at once whether they move in at once.

Mr. SIMON. But they didn't get to elect directors and take over control?

Mr. BOYER. No, sir; they did not because the corporation disappeared.

Mr. SIMON. They never had control of the nonprofit corporation, did they?

Mr. BOYER. Theoretically, no.

Mr. SIMON. Actually no, isn't it?

Mr. BOYER. Actually no, although they could if they had wanted to.

Mr. SIMON. Now, as I understand it, after you had sold about 1,000 homes, the people read the fine print and decided they didn't like the idea?

Mr. BOYER. That is not fair, Mr. Simon, and you know it is not fair, because I would like to read my testimony on it before.

The CHAIRMAN. We will withdraw it.

Mr. BOYER. I think——

Mr. SIMON. What you said——

Mr. BOYER. Let me repeat what I said. I said in selling the first 1,000 homes, when the people took home the contract they found in our contract written in capital letters saying that they would be responsible for their neighbors' debts, not in fine print, but in the largest print on the page.

Mr. SIMON. I change the fine print to the big print.

When they got home and read the contract——

Mr. BOYER. You want to be fair.

The CHAIRMAN. Yes; we withdraw it.

Mr. BOYER. I want to give you a story and you won't get a story if we fight over these things. I want to tell you everything I know.

Mr. SIMON. When they got home and read the contracts, the big print, they came back——

Mr. BOYER. I will tell you exactly what happened. They went to friends who were in the real-estate business, and they reminded them of a 1911 act we had here, the Matoon Act, where in 1911 many of the people who bought land under that act found that when their neighbor didn't pay for their assessment for the street improvements they were responsible for it, and they said "This may be another thing like that." They canceled their contracts as fast as we sold them. I went to Washington, explained to them, and I have here the reason, and I have here also proof that single-family houses was the intent of Congress.

Mr. SIMON. There is no question, it says so in section 2.

Mr. BOYER. You felt it did the other day, that we were circumventing the law.

Mr. SIMON. No. There is no question Congress intended in section 2 to provide for single-family homes, constructed by the cooperators.

Mr. BOYER. I don't want to argue. We started to sell under management type which meant that everybody stood under one roof as far as the corporation was concerned, and no one got individual ownership of their homes. They could never get out even if they paid for it unless everybody paid.

Mr. SIMON. That is a true cooperative; is that right?

Mr. BOYER. They are both true cooperatives. One is management type and one is sales type. The sales type, as set up by Congress, called for the liquidation of the corporation upon the completion of the project.

Mr. SIMON. Where do you find that in the act?

Mr. BOYER. The act is a book this big, sir.

Mr. SIMON. Here it is.

Mr. BOYER. That is only part of the act.

Mr. SIMON. This is the entire act of Congress.

Mr. BOYER. The act calls for administrative rules as set by the Commissioner of the Federal Housing Commission.

Mr. SIMON. Where do you find in the act of Congress—

Mr. BOYER. I find it here in the administration rules which is part of the act of Congress.

Mr. SIMON. I am sorry. It may be authorized by the act of Congress, but it is not part of it.

Mr. BOYER. I don't want to be technical. I don't make the laws. FHA made the rulings, and we have to live with FHA rulings. FHA calls for the liquidation of the corporation, and we have to follow that law.

Mr. SIMON. You are talking about FHA rules now?

Mr. BOYER. Let me read you the title.

Mr. SIMON. It is in the rules of FHA and not in the law Congress passed; is that right?

Mr. HOROWITZ. Wait a minute, counsel. When the Department passes a regulation, pursuant to authority of Congress, it is put in the Federal Register, and it has the same force and effect as an act of Congress.

Mr. SIMON. You know better than that.

Mr. HOROWITZ. You should know better than that.

Mr. BOYER. May I read this?

The CHAIRMAN. Let me say this: We are investigating FHA as well as you people.

Mr. BOYER. I want to give you a complete story.

The CHAIRMAN. I want to say at this point, when I said we are investigating FHA, we are, under the section 608 title, the man that ran it, a man by the name of Clyde Powell, who was with FHA for 20 years, and the top man and the last word, as you know, has refused to testify before this committee.

Mr. BOYER. That I know.

The CHAIRMAN. We have had him before the committee twice and he has hidden both times behind the fifth amendment. We are likewise investigating the rules and regulations that have been written by Mr. Powell and others.

Mr. BOYER. That is right.

It was also passed by the present Congress, and again put in part of the act, after the investigation.

The CHAIRMAN. That is right. We are investigating the FHA and the operations of it.

Mr. BOYER. Let me continue my story.

There was 1,004 houses there, under the management type. I have here the rules and regulations. The maximum amount of the loan under the management type was 83 percent of the replacement cost, with a higher limit of 5 percent additional, if there were veterans in the deal, 65 percent veterans in the deal. We had 65 percent veterans in the deal.

Now, to go under a single family or the project sale type, we now got a more costlier project to run. I went to Washington and talked to the Assistant Commissioner, the Assistant Commissioner—

The CHAIRMAN. Who was that?

Mr. BOYER. Mr. Lockwood.

May I call your attention when we talked about an Assistant Commissioner, Assistant Commissioner serves at the will of the Commis-

sioner. Only one Assistant Commissioner was appointed by Congress, and they had to have the Assistant Commissioner on the section 213 projects. No other type of FHA financing called for an Assistant Commissioner. This one was set by Congress, and Mr. Lockwood had that position.

I explained to him on account of the costlier methods, and what we would have to do on single-family houses, compared to management-type, project-type houses, that we would like that the certificate of eligibility be increased to the amount allowed under the single-family sales type houses, which would then be 95 percent of the FHA replacement cost, plus 95 percent of the FHA's valuation on the land.

We conferred on it 2 days and he called in others. At the end of the 2 days they declined to allow us to raise the mortgage.

We felt we would operate at a loss. They took me into Mr. Richard's office, who was Commissioner, and he told me that he thought that I owed an obligation to the people here that we had sold these houses, and I also owed the obligation to FHA. That this was the largest sales-type project in the United States, that our record with FHA had been of the highest, that whether we made money or lost money shouldn't enter into the consideration.

The CHAIRMAN. What year was this?

Mr. BOYER. 1951.

Wait a minute. I believe it was 1952.

If we made money or lost money it had nothing to do with it, that he thought we would go ahead with it or we should go ahead with it.

I told him at the outset that I told Mr. Lockwood regardless of their decision that we would go ahead with it, but I felt I was entitled to the increase that I would have if I had started the sales type originally.

I said, "You know, legally, I can dissolve and refuse to go ahead with this deal. There has been no contract signed." He said, "What about the moral obligation?" I said, "I feel I have it so I will go ahead with the contract."

We did build the tract. We lost money.

Mr. SIMON. Had you signed that guaranty by that time?

Mr. BOYER. No. You only sign the guaranty at the time it is put on record. It is closed and made at one time. This may help the Senator, of where there is a multiplicity of corporations. He seems to have trouble finding out.

The real reason there are so many corporations is, one, the building business is a unique business. You don't sell the same customer twice, with rare, rare exceptions. Two——

Mr. SIMON. You can sell a lot of customers out of one corporation; can't you?

Mr. BOYER. Let me finish. I will go into that.

Mr. SIMON. Can't you?

Mr. BOYER. Yes.

The CHAIRMAN. Couldn't you do just as much business in one corporation as you can with two or three hundred?

Mr. BOYER. Congress don't allow us.

Mr. SIMON. You mean Congress said you couldn't have more than a \$5 million mortgage?

Mr. BOYER. Congress said, one, you can't have more than a \$5 million mortgage, and administration rules of FHA do not allow over a

certain amount of credit to each corporation. That is No. 1. We started with a \$5 million corporation. We found we had an unwieldy thing to work with. We had 504 people and the mortgage was slightly under \$5 million. Under FHA administration rules every one of those 504 must be accounted for, their money paid in, they must sign all the papers, and before you can start the first house. You can't start at 90 percent. You can draw the papers at 90 percent.

The CHAIRMAN. What Congress was trying to do on the \$5 million was get a distribution, more people into the business rather than having all this concentrated in one hand, just like you and your partner have something like \$100 million worth of FHA mortgages.

Mr. BOYER. That is right. I understand Congress' intent.

Mr. CHAIRMAN. Frankly, what we are going to do starting next year is to get a bigger distribution of people in this business.

Mr. BOYER. Smaller corporations?

The CHAIRMAN. No; more people.

Mr. SIMON. Different ownership, the Senator means.

The CHAIRMAN. We don't want too many of the big fellows.

Mr. BOYER. We all start as little fellows. If it is a crime, I started in this business in 1939 on \$700 which I borrowed.

The CHAIRMAN. It is no crime; that it possibly becomes irregular when the Federal Government guaranteed it.

Mr. SIMON. You did have \$100 million of mortgages, didn't you?

Mr. BOYER. Let me finish. It isn't fair to me. I don't know, I will figure that up and tell you.

Let me finish my answer.

We finally found the 504 made it unwieldy. If one person died or one person got a divorce, or if one person was out of town, we could not close the case and start our construction. FHA's rules in administration called for the whole 504 to be accounted for and present. We then reduced it to 250. We have the same problem. There was always some missing. We now run as a rule whatever or how many lots are in a block. Usually 20; and were it not for the law saying that we have to have them all in at one time, we would—and a \$5 million limit—we would have had one corporation do this entire job.

The CHAIRMAN. Were it not for the law?

Mr. BOYER. Yes, sir; the law passed by Congress.

The CHAIRMAN. Is it a fact you and Mr. Weingart have two to three hundred corporations dealing in FHA mortgages?

Mr. BOYER. I just got through telling you, every block now has to be a separate mutual and every mutual a separate corporation, because that is the way Congress passed the law.

The CHAIRMAN. You are just as wrong as you can be. Read the law to me.

Mr. BOYER. That each mutual has to be a separate corporation.

The CHAIRMAN. Read the law.

Mr. BOYER. You have it clear. Is it the claim that you could have 2 mutuals and 1 corporation?

The CHAIRMAN. Just read the law, because if it is in the law it is wrong, and we will take it out.

Mr. BOYER. You have taken it out in this Congress.

The CHAIRMAN. That is the purpose of this investigation. We are investigating FHA, administration of FHA, as well as you builders.

Mr. BOYER. You can understand 2 mutuals couldn't be in 1 corporation. It is obvious. You say a group shall form a corporation.

Mr. SIMON. Where do you find in the law, Mr. Boyer, you have to have a separate corporation?

Mr. BOYER. I am calling rules and regulations of FHA law.

Mr. SIMON. Where do you find it in the regulations?

Mr. BOYER. I haven't got all the FHA regulations here, but Mr. Davidson is here. Why don't we ask him to stand and see if that is true.

He is head of the FHA of the district we built.

Mr. SIMON. We will have him, you may be sure.

I am asking you. You said we had the corporations separate because the law required it.

Mr. BOYER. That is right.

Mr. SIMON. I would like to have you show me what required it.

Mr. BOYER. I don't have the rules and regulations of the FHA here.

Mr. SIMON. Can you give me the number of the rule?

Mr. BOYER. No, sir. Maybe Mr. Davidson can.

Is there any objection? I would like to know, too.

Mr. SIMON. You are the witness, Mr. Boyer.

Mr. BOYER. Go right ahead.

Mr. SIMON. What was the total amount of the mortgages you have?

Mr. BOYER. Total amount of mortgages, FHA mortgages?

Mr. SIMON. Yes, sir.

Mr. BOYER. Over what period of time?

Mr. SIMON. FHA mortgages.

Mr. BOYER. From the beginning of my career to now?

Mr. SIMON. FHA mortgages.

Mr. BOYER. You don't want to tell me what period of time?

Mr. SIMON. During the existence of FHA.

Mr. BOYER. During the existence of FHA?

Mr. SIMON. Yes.

Mr. BOYER. This I am guessing, because this is over a period of many, many years.

Mr. SIMON. We can make it since the war. Would that make it easier?

Mr. BOYER. That wouldn't make any difference.

Mr. SIMON. Let us say since the war.

Mr. BOYER. I did it before the war, too, but most of it was done since 1941, so you can't say since the war.

Mr. SIMON. Let us say since 1946, since the war.

Mr. BOYER. Since 1946. Roughly \$105 million.

Mr. SIMON. Thank you, sir.

The CHAIRMAN. Mr. Boyer, have you been denied a license as a contractor in the State of California?

Mr. BOYER. No, sir.

The CHAIRMAN. You have not?

Mr. BOYER. No, sir; I have a license in the State of California.

The CHAIRMAN. Were you ever denied a license?

Mr. BOYER. I had trouble over a license.

The CHAIRMAN. What was the trouble?

Mr. BOYER. I don't even remember the details. It seems like in filling out the forms I didn't even sign the application.

Surely, Senator, that isn't going to help you pass the laws, is it?

The CHAIRMAN. Well, it certainly has a great bearing upon——

Mr. BOYER. You can start on me if you want to, but I don't believe that is what you want to do.

The CHAIRMAN. It certainly has great bearing on the subject whether or not you have a license.

Mr. BOYER. I have a license, and my companies have a license.

The CHAIRMAN. Do you individually have a license?

Mr. BOYER. I did, whether I still do have one I don't know——

The CHAIRMAN. Was it ever canceled?

Mr. BOYER. An attempt was made to cancel it but it was never canceled.

Am I right?

Mr. HOROWITZ. That is right.

Mr. BOYER. I think I did renew it.

Mr. HOROWITZ. I think you forgot to renew it.

Mr. BOYER. That is right.

The CHAIRMAN. Thank you very much, Mr. Boyer. We appreciate your testimony, unless you have something else you want to say.

Mr. BOYER. There was a lot of things that were asked that haven't been answered that I thought you would want answered.

I would like to say one thing here. This morning, before I came down here, in my office, I received what is known as a green sheet. The green sheet is the daily construction report, and going through this daily construction report I found, in bids to the county government here, that the difference between low and high bid ran as high as 100 percent, usually 10 to 12 percent difference.

I call that to your attention to show you how easy it is for one appraiser to figure something a little higher than the other appraiser.

Thank you very kindly.

The CHAIRMAN. Thank you, sir.

Mr. BOYER. Do you want me to stay here?

The CHAIRMAN. I think we are possibly finished with you gentlemen, yes.

Mr. BOYER. Thank you kindly.

Mr. HOROWITZ. I am sorry for the reason for your leaving the city.

The CHAIRMAN. Thank you, sir.

Our next witness will be Mr. Samuel Firks, 8900 West Olympic Boulevard, Beverly Hills, Calif.

Mr. Firks, will you be sworn, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF SAMUEL FIRKS, HOLLY PARK KNOLLS, ENGLEWOOD, CALIF.

Mr. FIRKS. I do.

The CHAIRMAN. Thank you, sir.

Will you give your full name and address to the reporter, please?

Mr. FIRKS. Samuel Firks, 8900 West Olympic Boulevard, Beverly Hills.

Mr. SIMON. Mr. Firks, you have built a number of section 608's, have you?

Mr. FIRKS. Yes; I have.

Mr. SIMON. How many?

Mr. FIRKS. Approximately 22 or 23.

Mr. SIMON. Twenty-two?

Mr. FIRKS. Twenty-two or twenty-three, something like that.

Mr. SIMON. What was the total amount of the mortgages on those 22 projects?

Mr. FIRKS. I would say close to \$5 $\frac{3}{4}$ million.

Mr. SIMON. Now, I have here \$2,941,000.

Mr. FIRKS. Two million how much?

Mr. SIMON. \$2,941,000.

Mr. FIRKS. I am taking into consideration Holly Park Knolls, too.

Mr. SIMON. Holly Park Knolls is \$2,615,000?

Mr. FIRKS. That is right.

Mr. SIMON. The other 21 total \$3,326,000?

Mr. FIRKS. That is correct, \$3,326,000.

Mr. SIMON. Isn't the total of that \$5,941,000?

Mr. FIRKS. That is correct.

Mr. SIMON. What was the cost?

Let me say, first, I asked you the amount of the mortgage. It is really 22 separate mortgages that total \$5,940,000; is that right?

Mr. FIRKS. That is right.

Mr. SIMON. Now, what was the total cost of the 22 buildings, including the land and everything else?

Mr. FIRKS. Well, let me break it down a little bit. On the 21 corporations, the total cost was \$3,161,311.41.

Mr. SIMON. And on Holly Park?

Mr. FIRKS. Holly Park was \$2,627,000.

Mr. SIMON. That would be \$5,788,000?

Mr. FIRKS. Approximately. I haven't checked that.

Mr. SIMON. That is approximately \$160,000 less than the mortgage; is that right?

Mr. FIRKS. If you take them both together; that is correct.

Mr. SIMON. If we take the 22 projects, the mortgages were roughly \$6 million and the costs were approximately \$160,000 less than the mortgage; is that right?

Mr. FIRKS. That is correct.

Mr. SIMON. You still own these projects?

Mr. FIRKS. No.

Mr. SIMON. After they were completed, though, you owned them all?

Mr. FIRKS. After we completed them I was one of the stockholders.

Mr. SIMON. If you sold them, of course, whatever profit you got on that was your profit?

Mr. FIRKS. That is right.

Mr. SIMON. On completion of these projects—and I appreciate they weren't all completed about the same time?

Mr. FIRKS. That is right.

Mr. SIMON. You owned 75 percent of each of these companies?

Mr. FIRKS. That is right.

Mr. SIMON. And upon completion, treating them all as one, you had roughly \$6 million worth of real estate, with no investment, and the mortgage proceeds were \$160,000 more than the costs?

Mr. FIRKS. When you say "no investment," exactly what do you mean?

Mr. SIMON. You made some loans which I take it were returned, but upon completion of the building you had received in mortgage proceeds \$160,000 more than all the costs?

Mr. FIRKS. That is correct, but I would like to qualify that statement. We did make quite a number of loans. For instance, on Holly Park we loaned as high as over \$300,000.

Mr. SIMON. That was paid back to you out of the mortgage proceeds?

Mr. FIRKS. Paid not out of the mortgage proceeds. I advanced that money. I formed a corporations, and which they had \$187,000 preferred stock and \$1,000 common stock, and when the project was completed I got my \$187,000 back, what I put in, and which I had permission from FHA to do.

Mr. SIMON. We are not quarreling. It is the fact——

Mr. FIRKS. You said——

The CHAIRMAN. What was the capital invested in these projects, common stock?

Mr. FIRKS. Common stock on the 21 projects was somewhere around \$80,000, I think. I think I have given you that figure, \$5,000 in each corporation, and two in the balance of it.

The CHAIRMAN. In other words, in each corporation you invested \$5,000?

Mr. FIRKS. That is correct.

The CHAIRMAN. You had how many?

Mr. FIRKS. I think there are 21 there.

The CHAIRMAN. The total was about \$80,000?

Mr. FIRKS. Yes; plus the loans that I made the corporation.

The CHAIRMAN. The loans were repaid?

Mr. FIRKS. Reimbursed; yes.

The CHAIRMAN. From the proceeds of the mortgage?

Mr. FIRKS. From the proceeds of the mortgage. I loaned the money so I got it back. It wasn't proceeds of the mortgage.

The CHAIRMAN. Your investment in each of these corporations was \$5,000?

Mr. FIRKS. That is right.

The CHAIRMAN. When it was all over you owned the properties—that is, the corporation did—and you had some \$160,000?

Mr. FIRKS. That is correct. I didn't have it personally. It was in the corporation. The money was in the corporation.

The CHAIRMAN. I understand. The corporation was worth \$5,000?

Mr. FIRKS. The corporation at the time was worth \$5,000.

The CHAIRMAN. They had \$5,000 invested capital and the Federal Government guaranteed all the mortgages?

Mr. FIRKS. That is right. After they were completed. Some of them were advanced, and some after completion.

The CHAIRMAN. If any of these projects went sour the Federal Government would take it back and you could keep the other 20?

Mr. FIRKS. That is right. The last 8 or 9 corporations were done—they were not insured advances. In other words, when the projects were completed, and up to specifications, then the Government came in to guarantee them.

Mr. SIMON. Did you have a commitment to insure upon completion before you started construction?

Mr. FIRKS. That is correct.

Mr. SIMON. So you knew that the moment the building was completed you would have an FHA mortgage?

Mr. FIRKS. Yes. I didn't know what it was going to cost me.

Mr. SIMON. The cost on all of them, putting them together, turned out to be, 22 projects, \$160,000 less than the mortgages?

Mr. FIRKS. That is correct.

The CHAIRMAN. When you sold them did you sell them at a profit?

Mr. FIRKS. I did.

The CHAIRMAN. How much profit did you make on the sale? You sold capital stock, I presume?

Mr. FIRKS. I sold capital stock of the 21 corporations.

The CHAIRMAN. For how much profit?

Mr. FIRKS. I would say a little over \$300,000.

The CHAIRMAN. Why did you sell the capital stock?

Mr. FIRKS. Well, I felt that there was time to sell and I could see a profit, so I sold them. There was no other reason. I would sell anything at a profit.

The CHAIRMAN. What the 21 corporations did, then, they made \$300,000 profit on the sale of the stock and \$160,000?

Mr. FIRKS. No.

The CHAIRMAN. The \$160,000 remained in the corporation?

Mr. FIRKS. In the corporation. I never took it out, never took builders' or architects' fees or any overhead.

The CHAIRMAN. Were you the builder?

Mr. FIRKS. Yes.

The CHAIRMAN. Both the sponsor and the builder?

Mr. FIRKS. Yes.

Mr. SIMON. Do you still own Holly Park?

Mr. FIRKS. Yes.

Mr. SIMON. The Government has a \$2,600,000 mortgage there?

Mr. FIRKS. \$2,615,000.

Mr. SIMON. It is probably paid down now to a little less than that?

Mr. FIRKS. Yes.

Mr. SIMON. Your capital investment in that company is \$1,000?

Mr. FIRKS. It is a little less, because I only have seventy-some-odd percent.

Mr. SIMON. Total capital is \$1,000 and you have three-quarters of it?

The CHAIRMAN. In other words, you have \$750?

Mr. FIRKS. That is right.

The CHAIRMAN. This is a 2 million—

Mr. FIRKS. \$2,615,000 investment.

The CHAIRMAN. In other words, the Federal Government guaranteed the mortgage on the \$750 investment you made?

Mr. FIRKS. I would like to qualify that statement. I still say again when I built this project I loaned as high as \$350,000, and that was all risk money besides the \$187,000.

The CHAIRMAN. We understand. You didn't loan the money until you got a commitment from the Government?

Mr. FIRKS. I bought the land 2 years before I built on it. I took that gamble. I rezone the property. I took that gamble.

The CHAIRMAN. Our observation has been in this investigation that nobody took any gamble on land because they were able to turn it in for many times what they paid for it.

Mr. FIRKS. Suppose it went down?

Mr. SIMON. If it went down, the United States Government would own 10 or 20 billion dollars' worth of real estate.

Mr. FIRKS. It could have gone down before I bought it or before I sold it.

The CHAIRMAN. Thank you very much. We appreciate your testimony.

We now find it is 12 o'clock, and rather than have another witness we will recess until 2 o'clock, at which time we will have maybe 5 witnesses. The first will be Mr. Yousem, of Venice, Calif., then Mr. Millar, then Mr. Schnitzer, of Portland, Oreg., then Mr. Halper, and then Mr. Davidson.

Mr. FIRKS. I am excused?

The CHAIRMAN. Yes.

(Whereupon, at 12:02 p. m., a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will please come to order.

Our first witness this afternoon will be Mr. Philip Yousem, of Venice, Calif. Will you be sworn, Mr. Yousem?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. YOUSEM. I do.

TESTIMONY OF PHILIP YOUSEM, UNION HOUSING, VENICE, CALIF., ACCOMPANIED BY ALFRED GITELSON AND JULIAN WEISS, COUNSEL

The CHAIRMAN. Please be seated and give your name and address to the reporter.

Mr. YOUSEM. Philip Yousem.

Mr. SIMON. Your address, Mr. Yousem.

Mr. YOUSEM. 1500 Lincoln Boulevard.

The CHAIRMAN. Who are the gentlemen with you?

Mr. GITELSON. I am Alfred Gitelson, one of the counsel for Mr. Yousem.

Mr. WEISS. I am Julian Weiss, also counsel.

The CHAIRMAN. Both of you gentlemen are lawyers representing this client.

You may proceed, Mr. Counsel.

Mr. GITELSON. If I may for the purpose of making this clear for yourselves and it would assist in this hearing, I have prepared a chronology of events in the matter of the Union Housing Plans No. 1.

The CHAIRMAN. We will be happy to place that in the record at the end of your client's testimony.

(The information referred to will be found in the files of the committee.)

Mr. SIMON. Mr. Yousem, are you connected with the Union Housing Plan, Inc.?

Mr. YOUSEM. Yes, sir.

Mr. SIMON. What was your connection?

Mr. YOUSEM. Are you speaking of the commercial property in front that I think was under Union Housing, Inc.?

Mr. SIMON. I am speaking of a corporation by the name of Union Housing Plan, Inc. I gather there were 35 such corporations?

Mr. YOUSEM. Union Housing Plan, 1 to 35, Inc.

Mr. SIMON. Thirty-five separate corporations?

Mr. YOUSEM. Yes, sir.

Mr. SIMON. What was your connection with them?

Mr. YOUSEM. I bought the two-thirds interest in those corporations.

Mr. SIMON. You owned a two-thirds interest?

Mr. YOUSEM. I bought a two-thirds interest in those corporations.

Mr. SIMON. When did you buy it?

Mr. YOUSEM. Approximately, let's see, October—either September or October of 1949.

Mr. SIMON. Was that before the FHA commitments were issued?

Mr. YOUSEM. It was after the FHA commitments were issued.

Mr. SIMON. Who applied for the commitments?

Mr. YOUSEM. I believe Myers Bros.

Mr. SIMON. Myron Bros.?

Mr. YOUSEM. Myers Bros.?

Mr. SIMON. Who are they?

Mr. YOUSEM. They are the contractors and the sponsors of the original deal.

Mr. SIMON. What did you buy from them when you say you bought a two-thirds interest?

Mr. YOUSEM. I bought the two-thirds of the stock in all these corporations.

Mr. SIMON. What were the assets of the corporations at that time?

Mr. YOUSEM. I believe just the lands, I believe.

Mr. SIMON. Did the corporations own the land free and clear?

Mr. YOUSEM. I am not sure about that.

Mr. SIMON. How much did you pay for the two-thirds stock interest?

Mr. YOUSEM. I paid \$175,000, in preferred stock.

Mr. SIMON. \$175,000?

Mr. YOUSEM. Yes.

Mr. SIMON. In preferred stock?

Mr. YOUSEM. Yes. The preferred stock belonged to Lambert Corp.

Mr. SIMON. Was that preferred stock issued for the land?

Mr. YOUSEM. I believe that was issued for the land.

Mr. SIMON. Was that subsequently redeemed?

Mr. YOUSEM. No. Preferred stock is still outstanding.

Mr. SIMON. Still outstanding?

Mr. YOUSEM. Yes.

Mr. SIMON. Did these corporations have anything other than the land when you bought in?

Mr. YOUSEM. The commitments.

Mr. SIMON. What is that?

Mr. YOUSEM. Commitments.

Mr. SIMON. Land and commitments?

Mr. YOUSEM. Yes.

Mr. SIMON. You paid \$175,000 for the land and commitments?

Mr. YOUSEM. Yes.

Mr. SIMON. How much of that was for land and how much for commitments?

Mr. YOUSEM. Land was \$5,000 a lot, for a corporation, there were 35 corporations.

Mr. SIMON. What was the total amount of the mortgage in the 35 corporations, the 35 mortgages?

Mr. GITELSON. The very first one?

Mr. SIMON. No; the 35 mortgages.

Mr. GITELSON. There was a commitment plus an amendment.

Mr. SIMON. Total commitment.

Mr. YOUSEM. \$5,167,700.

Mr. SIMON. \$5,167,700 was the FHA mortgage commitment on the 35 corporations; is that right?

Mr. YOUSEM. Yes, sir.

Mr. SIMON. What was the cost of constructing the buildings for these 35 corporations?

Was it \$4,850,000?

Mr. YOUSEM. I believe it was close to it. I am not sure.

Mr. SIMON. Is that the right amount?

Mr. YOUSEM. I can't tell you without looking at the record.

Mr. SIMON. Do you have the record there?

Mr. YOUSEM. No; I don't.

Mr. SIMON. Is that what you testified to?

Mr. YOUSEM. If I did, that is correct.

Mr. GITELSON. That is without contractors' fee.

Mr. SIMON. Who was the contractor?

Mr. YOUSEM. Myer Bros. were the contractors on the job.

Mr. SIMON. Isn't \$4,850,000 the total amount you paid them?

Mr. YOUSEM. No. I took over the contract from Myer Bros. to build these projects.

Mr. SIMON. Who was the contractor on the job?

Mr. YOUSEM. The contractor on the job was Myer Bros.

Mr. SIMON. Did you pay them \$4,850,000?

Mr. YOUSEM. No. I took over their contract along with the commitment and the two-thirds stock in the corporations.

Mr. SIMON. Then who was the contractor who built the buildings?

Mr. GITELSON. Can I explain?

Mr. SIMON. No. I would like him to answer.

Mr. YOUSEM. Actually they were the contractors. I was the subcontractor on the deal, and with the authority to let all the contracts, and sign all the contracts and disburse all the money, but they were the contractors on the job. They signed the contract on each, or with each corporation.

Mr. SIMON. Do I understand, then, that Union Housing Plan which you owned two-thirds of the stock of, gave the contracts for these projects to Myer Bros. and then Myer Bros. subcontracted it to you?

Mr. YOUSEM. That is correct.

Mr. SIMON. That is correct.

Was the total cost \$4,850,000, including a fee of \$62,000 to you?

Mr. YOUSEM. I believe that is correct.

Mr. SIMON. And the land was \$175,000?

Mr. YOUSEM. That is right.

Mr. SIMON. Is that right?

Mr. YOUSEM. Yes, sir.

Mr. SIMON. So that the total cost of buildings and land was \$5,025,000; is that right?

Mr. YOUSEM. The disbursed cost was \$5,025,000. Actually—

Mr. SIMON. Do you owe any money now on the cost of construction?

Mr. YOUSEM. No.

Mr. SIMON. You have paid all the costs?

Mr. YOUSEM. Yes.

Mr. SIMON. The total amount you paid, for all the costs you paid, was \$5,025,000?

Mr. YOUSEM. Yes, sir.

Mr. SIMON. The amount of the mortgage was \$5,167,000; is that right?

Mr. YOUSEM. \$167,700, I believe.

Mr. SIMON. Then the mortgage was \$142,000 above all of your costs; is that right?

Mr. YOUSEM. The disbursed costs.

Mr. SIMON. What is an undisbursed cost?

Mr. YOUSEM. If you will let me explain—

Mr. SIMON. I would like to know what an undisbursed cost is.

Mr. YOUSEM. Actually the cost was \$5,219,000.

Mr. SIMON. What is an undisbursed cost?

Mr. YOUSEM. There was contractors' fee which amounted to \$256,000.

Mr. SIMON. Was it paid to anybody?

Mr. YOUSEM. It was partly paid to me, and there was dispute over the rest of the contract, and I waived it.

The CHAIRMAN. It was paid to yourself?

Mr. YOUSEM. I took over Myer Bros.' contract with the corporation.

The CHAIRMAN. But you own the corporation, do you not?

Mr. YOUSEM. No. I only had two-thirds.

The CHAIRMAN. You owned two-thirds of it?

Mr. YOUSEM. Yes, sir.

The CHAIRMAN. Who owned the other third?

Mr. YOUSEM. Mr. Bialac.

The CHAIRMAN. Who is he?

Mr. YOUSEM. He owns the other third of the common stock.

The CHAIRMAN. Who is he?

Mr. YOUSEM. He is the other owner.

The CHAIRMAN. What is his business? Where does he live?

Mr. YOUSEM. He lives in Los Angeles.

The CHAIRMAN. What is his business?

Mr. YOUSEM. He is a builder, and investor, I guess.

The CHAIRMAN. Did he have any other FHA projects, other than this one?

Mr. YOUSEM. I don't think he has; he has one he is about to start, I believe.

Mr. SIMON. Did you have any other business dealings with him?

Mr. YOUSEM. Yes, sir.

Mr. SIMON. What were they?

Mr. YOUSEM. We built some FHA houses; I didn't build them. He had the sales of FHA houses back in 1940, 1941.

Mr. SIMON. Which you built for him?

Mr. YOUSEM. I was just in charge of construction. I didn't build them for him. I had an interest in the project on the construction end.

Mr. SIMON. Mr. Yousem, can you have a cost that you don't pay to anybody?

Mr. YOUSEM. Well, this actually was a cost, but——

Mr. SIMON. Is it a cost unless you pay it?

Mr. YOUSEM. Well, I think it was a cost, but——

Mr. SIMON. If you go to a store and they have a suit for \$100, and they give it to you for \$50, what is the cost of the suit?

Mr. YOUSEM. Fifty.

Mr. SIMON. You don't have a cost unless you pay it; do you?

Mr. YOUSEM. Well, if you want to look at it in that manner.

Mr. SIMON. Isn't that what cost means? I may be wrong, but isn't that what cost means?

Mr. YOUSEM. I tried to explain the builder's fee was \$256,000, which would make the cost of this project——

Mr. SIMON. Who said the builders' fee was \$256,000?

Mr. YOUSEM. That is the total of the contracts, builders' fees set up in the contracts which I took over from Hyer Bros.

Mr. SIMON. You were supposed to get \$256,000 from yourself; is that right?

Mr. YOUSEM. That is right.

Mr. SIMON. Instead of that you decided to pay yourself \$62,000; is that right?

Mr. YOUSEM. No; that is not so.

Mr. SIMON. Did you pay yourself \$62,000?

Mr. YOUSEM. I paid \$62,000, after settlement was made with the other minority stockholder.

Mr. SIMON. Well, then, let's see if we have got the facts right.

Mortgages were a total of \$5,167,000; is that right?

Mr. YOUSEM. \$167,000.

Mr. SIMON. And the total amount you paid to everybody in connection with the building and in connection with the acquisition of the land, including all costs that anybody was paid, was a total of \$5,025,000?

Mr. YOUSEM. That is right.

Mr. SIMON. And that includes \$62,000 that you were paid?

Mr. YOUSEM. That is right.

Mr. SIMON. The mortgage exceeded the total cost by \$142,000, and in addition you got \$62,000 out of the mortgage proceeds?

Mr. YOUSEM. Right.

Mr. SIMON. Thank you, sir.

Of course, you still own the buildings?

Mr. YOUSEM. Yes; two-thirds of the stock.

The CHAIRMAN. The corporation, of which you own two-thirds, still owns the buildings?

Mr. YOUSEM. Yes, sir.

The CHAIRMAN. You are renting them?

Mr. YOUSEM. Yes, sir.

The CHAIRMAN. Are they profitable?

Mr. YOUSEM. There is a deficit loss of around \$300,000.

The CHAIRMAN. Do you think maybe the Government will have to take them back?

Mr. YOUSEM. No, sir.

Mr. SIMON. If any one goes sour you could turn that one back to the Government and keep the other 34?

Mr. YOUSEM. It is possible.

Mr. SIMON. Is that right?

Mr. YOUSEM. That is right.

Mr. SIMON. You have no personal liability on any of these mortgages?

Mr. YOUSEM. No, sir.

The CHAIRMAN. Thank you, very much.

Our next witness will be Mr. Alex K. Millar.

Are you Mr. Millar?

Will you be sworn:

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MILLAR. I do.

The CHAIRMAN. Thank you, sir.

Will you be seated and give your full name and address to the reporter, please?

**TESTIMONY OF ALEX K. MILLAR, HARBOR HILLS, LIMITA, CALIF.,
ACCOMPANIED BY SIDNEY LAUGHLIN, COUNSEL**

Mr. MILLAR. Alex K. Millar, 26607 South Western Avenue, Limita, Calif.

The CHAIRMAN. And the gentleman with you.

Mr. LAUGHLIN. Sidney Laughlin, his attorney.

Mr. SIMON. What is your occupation, Mr. Millar?

Mr. MILLAR. I am manager of Harbor Hills housing project.

Mr. SIMON. How long have you had that occupation?

Mr. MILLAR. About 5 years.

Mr. SIMON. Have you ever been connected with the Los Angeles Public Housing Authority?

Mr. MILLAR. Yes; Harbor Hills is owned by the Los Angeles County Housing Authority.

Mr. SIMON. Did you have a position with the Los Angeles County Public Housing Authority?

Mr. LAUGHLIN. What time?

Mr. SIMON. At any time.

Mr. MILLAR. Yes.

Mr. SIMON. When?

Mr. MILLAR. From 1949 to the present.

Mr. SIMON. What has been your position with the Los Angeles County Housing Authority?

Mr. MILLAR. I was manager of Harbor Hills housing project.

Mr. SIMON. Are you acquainted with the property in Ogden, Utah, known as Washington Terrace?

Mr. MILLAR. Yes.

Mr. SIMON. Were you ever employed by Stimson Markets, Inc.?

Mr. MILLAR. I received checks from Stimson Markets, Inc. However, I was actually employed by Mr. Stimson.

Mr. SIMON. From May 1, 1951, to August 15, 1952, did you receive \$500 a month, either from Stimson Markets, Inc., or Mr. Stimson?

Mr. MILLAR. Yes.

Mr. SIMON. What were those payments for?

Mr. MILLAR. I was acting as a commercial adviser to him, endeavoring to find properties in southern California that he might be interested in operating grocery stores on.

Mr. SIMON. Was your position with the Los Angeles County Housing Authority a full-time job or part-time job?

Mr. MILLAR. Full time.

Mr. SIMON. But during this period you got \$500 a month from Stimson to look for properties for him?

Mr. MILLAR. That is right.

Mr. SIMON. Did you ever find one for him?

Mr. MILLAR. Yes.

Mr. SIMON. Where?

Mr. MILLAR. Down around the harbor area.

Mr. SIMON. Did he buy it?

Mr. MILLAR. No.

Mr. SIMON. Did you ever find anything for him that he bought?

Mr. MILLAR. No.

Mr. SIMON. Now, are you acquainted with the grocery store that Stimson runs, or Stimson Markets, Inc., run in Washington Terrace at Ogden, Utah?

Mr. MILLAR. Yes, sir.

Mr. SIMON. What is the nature of that building?

Mr. MILLAR. There is a grocery store and a drugstore in the 1 building, and 4 small store fronts in a separate building.

Mr. SIMON. Prior to 1952, who owned the buildings?

Mr. MILLAR. The Federal Government.

Mr. SIMON. In 1952 did the Federal Government advertise for bids for the sale of that building?

Mr. MILLAR. Yes.

Mr. SIMON. Do you know on what day the bids were opened?

Mr. MILLAR. Yes; September 30, 1952.

Mr. SIMON. Where?

Mr. MILLAR. San Francisco.

Mr. SIMON. Where were you on September 30, 1952?

Mr. MILLAR. In San Francisco.

Mr. SIMON. Did you make a bid on that property?

Mr. MILLAR. I did.

Mr. SIMON. What was the amount of your bid?

Mr. MILLAR. I made 2 bids, 1 of \$166,000 and 1 of \$141,000.

Mr. SIMON. Where was your bid typed? Was it a typed bid?

Mr. MILLAR. Yes.

Mr. SIMON. Where was it typed out?

Mr. MILLAR. It was typed in San Francisco.

Mr. SIMON. Where?

Mr. MILLAR. At the Californian Hotel.

Mr. SIMON. Do you know by whom?

Mr. MILLAR. It was either typed by myself or Mr. Weingart.

Mr. SIMON. Was it typed on the typewriter of the public stenographer in the Californian Hotel?

Mr. MILLAR. Yes.

Mr. SIMON. Yes.

Mr. SIMON. Did Stimson's company also bid on that project?

Mr. MILLAR. They did.

Mr. SIMON. Do you know where their bid was typed?

Mr. MILLAR. I am really not sure on that particular point. I know that one was typed in the Californian Hotel.

Mr. SIMON. Weren't they both typed on the typewriter of the public stenographer in the Californian Hotel?

Mr. MILLAR. I would not be sure about that.

Mr. SIMON. Would you say they weren't?

Mr. MILLAR. I would not be sure about that. I know that one was.

Mr. SIMON. Can you say that both weren't?

Mr. MILLAR. No.

Mr. SIMON. Were you and Mr. Stimson both staying at the Californian Hotel?

Mr. MILLAR. Yes, sir.

Mr. SIMON. Who paid your hotel bill?

Mr. MILLAR. Mr. Stimson.

Mr. SIMON. Was your wife with you, too?

Mr. MILLAR. Yes, sir.

Mr. SIMON. Did he pay her hotel bill, too?

Mr. MILLAR. Yes.

Mr. SIMON. When you presented your bid you had to present a check of \$4,120, was it?

Mr. MILLAR. That is right.

Mr. SIMON. Was that a cashier's check?

Mr. MILLAR. Yes.

Mr. SIMON. Where did the money to buy the cashier's check come from?

Mr. MILLAR. Mr. Stimson.

Mr. SIMON. Stimson Markets purchased the cashier's check for you to give to the Federal Government; is that right?

Mr. MILLAR. I am not too sure exactly where the money came from. The check was given to me by Mr. Stimson.

Mr. SIMON. At any rate, it wasn't your money?

Mr. MILLAR. That is right, sir.

Mr. SIMON. Did you and Mr. Stimson discuss the amounts of your respective bids in the 3 or 4 days before the bids were opened?

Mr. MILLAR. Yes. I told Mr. Stimson what I intended to bid.

Mr. SIMON. And he told you what he was intending to bid; is that right?

Mr. MILLAR. I knew in round figures. I did not know the exact amount.

Mr. SIMON. He furnished the money for your deposit and he furnished the money for his own deposit; is that right?

Mr. MILLAR. That is right, sir.

Mr. SIMON. And he paid all your expenses up there; is that right?

Mr. MILLAR. Yes. However, the expenses was not a prearranged deal because I made a reservation for the wife and myself arriving on a Saturday before the bid opening, and made my check as a personal deposit.

Mr. SIMON. You had been on their payroll at \$500 a month until August 15, 1952; is that right?

Mr. MILLAR. If that is the date, sir. About that time, I would say.

Mr. SIMON. Is it a fact that they ceased paying you at that time so that you could be a bidder on this project without being on their payroll?

Mr. MILLAR. I would rather say my salary ceased at that time; yes.

Mr. SIMON. Was it a pure coincidence or did the salary cease at that time because the bid was coming up?

Mr. MILLAR. Yes; it was coming up, so I certainly wouldn't be on the payroll at the time the bid was coming up.

Mr. SIMON. You and they didn't want you on their payroll when the bid came up?

Mr. MILLAR. I did not want to be on the payroll, either, sir.

Mr. SIMON. Was there any discussion about their continuing to run this grocery store if you were the successful bidder?

Mr. MILLAR. Yes. I had discussed with Mr. Stimson that I would be very desirous of having me a tenant if I were the successful bidder.

Mr. SIMON. Wasn't part of the deal by which he put up the money and did the other things he would still occupy the place if you were the successful bidder?

Mr. MILLAR. Yes, sir.

Mr. SIMON. Wasn't he going to arrange for the financing of the balance if you became a successful bidder?

Mr. MILLAR. I don't believe so.

Mr. SIMON. Was he going to help with it?

Mr. MILLAR. No, because I had made a trip back east and I had people that would be interested in investing money in the project.

Mr. SIMON. Did you have a commitment from anybody to invest?

Mr. MILLAR. I did not.

Mr. SIMON. You had no commitment from anybody?

Mr. MILLAR. No, sir.

Mr. SIMON. Didn't you have an understanding with Stimson or his firm that they would assist, shall we say, in the financing?

Mr. MILLAR. I believe that Mr. Stimson personally was very interested that I get the project because he wanted to stay in the grocery business.

Mr. SIMON. He was interested enough to assist in the financing if you were the successful bidder?

Mr. MILLAR. There was no definite arrangement on that, sir.

Mr. SIMON. You say no definite arrangement?

Mr. MILLAR. That is right.

Mr. SIMON. Why do you say that?

Mr. MILLAR. I believe I could have called on Mr. Stimson personally, yes, if I needed some financing on it.

Mr. SIMON. Was there an indefinite arrangement?

Mr. MILLAR. Very indefinite.

Mr. SIMON. But an indefinite arrangement?

Mr. MILLAR. Yes, very indefinite. There were no figures quoted.

Mr. SIMON. But it was understood that if you were the successful bidder he would assist in indefinite terms in the financing?

Mr. MILLAR. If necessary, but it would be to my advantage not to have him.

Mr. SIMON. Now, you were the high bidder, weren't you?

Mr. MILLAR. Yes.

Mr. SIMON. And Mr. Stimson's bid was \$114,000; is that right?

Mr. MILLAR. No. I believe it was \$113,000.

Mr. SIMON. \$113,000?

Mr. MILLAR. Yes.

Mr. SIMON. That is right.

Mr. MILLAR. I believe that was it, sir.

Mr. SIMON. And after the bids were opened you were the high bidder, and he was the second high bidder, and there was a very substantial difference between your bids; is that right?

Mr. MILLAR. That is true.

Mr. SIMON. And then you declined to go through with the bid; is that right?

Mr. MILLAR. Yes. I declined to go through with the bid because I had bid on the general conditions of sale. In the general conditions of sale there were no specified years as to the term the balance should be paid in.

Mr. SIMON. Then Mr. Stimson got the property for the lower bid, didn't he?

Mr. MILLAR. I don't think it had anything to do with that particular bid that Mr. Stimson got the property. It was negotiated in San Francisco at a much later date after all of the deposits had been returned except mine.

Mr. SIMON. After you didn't go through with your bid they sold it to him at approximately the amount of his lower bid; is that right?

Mr. MILLAR. I understand that is true.

Mr. SIMON. Isn't what happened here, Mr. Millar, that you and Stimson got together and agreed that you would bid high and he would bid low, and if somebody else bid higher than he did then you would go ahead with your bid, but if nobody bid higher than you did that you wouldn't go ahead with your bid and he would take the lower price?

Mr. MILLAR. No. That is not the arrangement.

Mr. SIMON. Why else would he pay for your expenses to San Francisco, and give you the check for the down payment, and why does he have you on the payroll for a year and 3 months at \$500 a month? And discuss the terms of your respective bids while you both stayed at the Californian Hotel in San Francisco?

Mr. MILLAR. I believe that in my testimony in Washington that I—

Mr. SIMON. Can you tell me what the fact is?

Mr. MILLAR. Yes. I was making a separate bid and I was very anxious to obtain that property, and had I wanted to just go, I could have made as many as 10 bids at \$1,000 a piece right up the ladder.

Mr. SIMON. If you had made 10 bids you would have had to put down a cashier's check with each of them, wouldn't you?

Mr. MILLAR. No, sir.

Mr. SIMON. You mean you make 10 bids and put down 1 deposit?

Mr. MILLAR. The \$4,120 involved is with respect to the bid of \$166,000 throughout.

Mr. SIMON. If you make 10 bids the Government is going to accept your highest bid, aren't they? I hope the Government wouldn't be foolish enough to accept your lowest bid.

Mr. MILLAR. I wouldn't be sure about that, sir.

The CHAIRMAN. Weren't you with the Government for a long period of time?

Mr. MILLAR. Yes.

The CHAIRMAN. With the public housing?

Mr. MILLAR. Yes.

The CHAIRMAN. Here in Los Angeles?

Mr. MILLAR. No; Ogden, Utah.

Mr. SIMON. That was before you came with Los Angeles Housing?

Mr. MILLAR. Yes. I resigned from the Government in 1945.

Mr. SIMON. To go to work for Los Angeles County?

Mr. MILLAR. No, I was away from the Government. I was over in Europe and I was over in Korea. I went with the Housing Authority in 1949.

Mr. SIMON. Now, during this time that you were working for the Los Angeles County Housing Authority, and getting \$500 a month—about \$7,500 all told they paid you—

Mr. MILLAR. I imagine so, yes.

Mr. SIMON. You were supposed to be looking for real estate for him; is that right?

Mr. MILLAR. That is right.

Mr. SIMON. How much time did you spend looking for real estate?

Mr. MILLAR. The evenings and Saturdays and Sundays.

Mr. SIMON. And then in this San Francisco thing, the bidding on this project, it is a project that is important to them because they have their store in it?

Mr. MILLAR. It was very important to me, too, sir.

Mr. SIMON. It was important to them because that is where they had their place of business?

Mr. MILLAR. Yes.

Mr. SIMON. They met you up there. Was that by prearrangement? Did you know they were going to be there?

Mr. MILLAR. Yes.

Mr. SIMON. Did you both stay at the Californian Hotel by prearrangement?

Mr. MILLAR. We stayed at the Californian Hotel.

Mr. SIMON. Was that by prearrangement with Stimson?

Mr. MILLAR. Yes, because I made the reservation for Stimson myself.

Mr. SIMON. Was it arranged in advance that they would supply the \$4,100 for your bid?

Mr. MILLAR. Yes. If I could not obtain it elsewhere.

Mr. SIMON. If you were competing with Stimson for this property, and unless you were in collusion with him you must have been competing with him to see who would be the successful bidder, if you were competing with him to be the successful bidder why should he put up your downpayment and pay your hotel bill up there and go through all these arrangements to meet you before the bidding?

Mr. LAUGHLIN. May I interrupt?

The CHAIRMAN. You may.

Mr. LAUGHLIN. And ask that the word "collusion" be stricken from counsel's question?

The CHAIRMAN. Can you find a better word for it? If you can we will strike it.

Mr. LAUGHLIN. That is merely counsel's interpretation of a set of facts. It is a conclusion.

The CHAIRMAN. Aren't the facts that this gentleman worked for him for \$500 a month, for a year and a half, and that this other bidder paid his hotel bill, he and his wife, in San Francisco, that they discussed how much each would bid. That the other man put up both the downpayment required for his bid as well as for your client's bid? What would you call that?

If you can find a better term than collusion I will certainly accept it.

Mr. LAUGHLIN. That is a statement of counsel in question. I am not going to quarrel with what interpretation is to be put on it ~~at~~ this time.

Mr. SIMON. Would you agree they were either competitive or collusive bids?

Mr. LAUGHLIN. I will agree that is a statement of facts. The gentleman stated he was interested in buying the property.

Mr. SIMON. Don't they have to be either competitive bids or collusive bids?

Mr. LAUGHLIN. As a matter of competitive bidding in any project like this they should be competitive.

Mr. SIMON. If they aren't competitive they are collusive.

Mr. LAUGHLIN. There were nine bids in this same project.

The CHAIRMAN. By nine other people?

Mr. LAUGHLIN. Yes.

Mr. SIMON. Wouldn't you agree that in this case they ~~were~~ either competitive bids, that is, Millar and Stimson's bids were either competitive with each other or collusive?

Mr. LAUGHLIN. It would be one or the other, but we maintain they are competitive. You are interpreting it as collusive.

The CHAIRMAN. We are not a law court, so we have no objection to withdrawing the word "collusive," if it will make you happy.

Mr. SIMON. Senator, we are in agreement now. He says he agrees that they are either competitive bids or collusive bids.

Mr. LAUGHLIN. Your interpretation is not the same as mine.

Mr. SIMON. Now, Mr. Millar, if these were competitive bids, what reason was there why your competitor would give you the money for your downpayment, pay your hotel bill up there, meet with you in San Francisco to discuss the drawing of the bids and typing of them, and have paid you \$500 a month for the prior year and 3 months?

Mr. MILLAR. No. 1, I don't see the connection of the \$500 a month for the previous time.

Mr. SIMON. You testified a minute ago, if I heard you right, that that continued up until this bidding.

Mr. MILLAR. That is right.

Mr. SIMON. And the reason for severing it—

Mr. MILLAR. It had nothing to do with this particular project.

Mr. SIMON. I thought the reason for severing that was so you would be free to make this bid.

Mr. MILLAR. That is right.

Mr. SIMON. So it did have something to do with it? Obviously you wouldn't want to be on their payroll—

Mr. MILLAR. That is right.

Mr. SIMON. The very day you were making this bid. That would have been on its face—

Mr. MILLAR. That is right.

Mr. SIMON. What I am trying to find out, now, having been on their payroll up until just before——

Mr. MILLAR. Doing other business.

Mr. SIMON. If this was a competitive bid, why did they meet you in San Francisco, pay your hotel bills, and put up your downpayment, if they were competing with you?

Mr. MILLAR. Strange as it may seem, Mr. Stimson did not want the property himself.

The CHAIRMAN. Why did he bid on it? Answer my question.

Mr. MILLAR. He bid on it because he thought the value of the property was around \$113,000. I thought it was worth much more, sir, and that is why I bid much more, and if the general conditions had so stated the terms I would not have bid as I did.

Mr. SIMON. Your bid was \$141,000?

Mr. MILLAR. \$141,000 and also a bid of \$166,000, but both were contingent upon terms.

The CHAIRMAN. Why did Stimson get it for less?

Mr. MILLAR. That is a question I don't know.

Mr. SIMON. He got it——

Mr. MILLAR. He negotiated and I was not in on it.

Mr. SIMON. Isn't the reason he got it for less was because you backed out on your bid?

Mr. MILLAR. Because I backed out, because I could not get the terms that I wanted, and the terms were not stated in the general conditions.

Mr. SIMON. There was nobody bidding between you and Stimson when you backed out?

Mr. MILLAR. That is right.

The CHAIRMAN. How much did you bid?

Mr. MILLAR. \$141,000.

The CHAIRMAN. What did Stimson bid?

Mr. MILLAR. I believe there were two bids, \$114,000 something and \$125,000 something.

The CHAIRMAN. What did he get it for?

Mr. MILLAR. He negotiated at a later date for \$113,000, which I understand had nothing to do with the bidding whatsoever.

Mr. SIMON. Except it was the precise amount of his bid.

Mr. MILLAR. That I can't control and know nothing of.

Mr. SIMON. It is true; isn't it?

Mr. MILLAR. To the best of my knowledge; yes.

Mr. LAUGHLIN. How much later was that? How much later did he get it?

Mr. SIMON. I don't know.

Mr. MILLAR. September 30 is when the bidding was made and as I understand it was in the spring of 1953.

Mr. SIMON. There was quite a bit of controversy before they let you out of your bid, wasn't there?

Mr. MILLAR. I had 60 days with which to take up my bid.

Mr. SIMON. And they couldn't do anything with him until after?

Mr. MILLAR. After 60 days which came up about the first of the year. It wasn't negotiated then. It was negotiated in the spring.

Mr. SIMON. For some months they were trying to get you to go ahead with your bid, and you did not want to?

Mr. MILLAR. I wanted to go ahead with the bid. If it had been in proper condition, properly worded, legally, I would have. I have a letter from the attorney who asks for \$4,700 back which rightfully belongs to him, but hasn't been returned from the Government.

Mr. SIMON. It hasn't been returned from the Government?

Mr. MILLAR. No. We have to sue for it.

Mr. SIMON. Thank you, sir.

The CHAIRMAN. Our next witness will be Mr. Harold J. Schnitzer, of Portland, Oreg., after which we will hear Mr. Arthur C. Wright, president of the Home Builders Institute.

Mr. Schnitzer.

Mr. SCHNITZER. Can we hold the pictures until the end?

The CHAIRMAN. This committee always complies with the wishes of the witnesses in respect to photographs and radio and television. What is your wish?

Mr. SCHNITZER. I request that they be held until after the interview.

The CHAIRMAN. You mean you do not want a picture taken now?

Mr. SCHNITZER. Not at the present time, sir.

The CHAIRMAN. The photographers will comply with your request, if they will, please.

Mr. SCHNITZER. Thank you.

The CHAIRMAN. Will you be sworn, Mr. Schnitzer?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF HAROLD J. SCHNITZER, HILL AIR FORCE BASE,
PORTLAND, OREG., ACCOMPANIED BY HAROLD B. HUTCHINSON,
COUNSEL**

Mr. SCHNITZER. I do.

The CHAIRMAN. Thank you, sir.

Mr. SIMON. Would you give your name and address to the reporter, Mr. Schnitzer?

Mr. SCHNITZER. My name is Harold J. Schnitzer. I reside at 2121 Southwest 16th Avenue, Portland, Oreg.

Mr. SIMON. Just to identify you in the record, you had three Wherry Act projects, 1 in California, 1 in Utah, and 1 in Montana?

Mr. SCHNITZER. That is correct.

Mr. SIMON. The one in Utah is the Hill Air Force Base?

Mr. SCHNITZER. The Hill Air Force Base housing project.

Mr. SIMON. What is the amount of the mortgage there?

Mr. SCHNITZER. The Hill Field project mortgage is approximately \$2,636,000.

Mr. SIMON. And you have one in Montana. Is it at Great Falls?

Mr. SCHNITZER. That is correct.

Mr. SIMON. What is the amount of that mortgage?

Mr. SCHNITZER. The mortgage is approximately \$3,208,000.

Mr. SIMON. And you have one at Barstow, Calif.?

Mr. SCHNITZER. That is correct.

Mr. SIMON. What is the amount of that mortgage?

Mr. SCHNITZER. \$2,474,000.

Mr. SIMON. If my addition is right, that is roughly \$8,300,000 of mortgages?

Mr. SCHNITZER. That is correct, sir.

Mr. SIMON. Mr. Schnitzer, prior to getting these three commitments from the Federal Housing Administration, had you ever done any building at all, other than remodeling a piece of property that you personally owned?

Mr. SCHNITZER. Prior to engaging in these title VIII projects I was engaged in the steel business and the construction equipment rental business.

Mr. SIMON. Other than remodeling of property of your own, had you ever done any building?

Mr. SCHNITZER. Not prior to this particular job.

Mr. SIMON. If the chairman please, I would like the record to show that we had subpoenaed for today from Mr. Schnitzer a number of canceled checks that we had been working on, and that pursuant to that subpoena he has produced them. We have quickly gone through them and taken out those checks that we are interested in, and are prepared to return the remainder to him today, and I would guess that it would take us about a week to complete our auditing of the material that we have obtained by the subpoena, and we wouldn't be prepared to complete our examination until about a week from today, but there are some preliminary questions that I would like to ask.

Mr. HUTCHINSON. Would it not be possible to photostat those checks and return them?

Mr. SIMON. Yes. We can give you all except the ones you know we have taken today and as soon as we photostat the others we will give them to you.

Mr. Schnitzer, I show you a copy of a telegram addressed to you, signed Portland Engineering Co., dated April 13. The year isn't shown. Addressed to Harold J. Schnitzer, Hotel Utah, Salt Lake City, Utah.

Have you ever seen that telegram? I don't mean the paper I hand you, but the original of which that is a photostat copy.

Mr. SCHNITZER. I don't remember the particular telegram. I could check my records on that.

Mr. SIMON. Would you read it, please, and see if it doesn't refresh your recollection.

Would you read it out loud, sir?

Mr. SCHNITZER. It says:

Reference your request today. We confirm our statement total charges \$1,844.98 for our invoices—

Mr. SIMON. Could you read into the microphone so they can hear you, sir?

Mr. SCHNITZER. Yes. [Continues reading:]

for our invoices Nos. 6476, 6641, 6680, and 6795 and our charges of June 8, 1953, are all for cancellation charges and restocking charges of following items ordered by you for Hill Field propane plant. Items include regulators, temperature control, shutoff valves, safety controls, meters, and other special equipment per your purchase orders for propane plant. Charges aforementioned are net after credit for return of merchandise actually shipped by manufacturers. We also ordered for your account one compressor manufactured by Sullivan and Landers, original purchase price \$998.50, for which we have separately charged you 40 percent cancellation charge.

I believe, Mr. Simon, I do recall the particular telegram.

Mr. SIMON. Was that telegram received by you at that Salt Lake Hotel?

Mr. SCHNITZER. Yes; it was.

Mr. SIMON. Did you then take it over to the Federal Housing Administration and show it to Mr. H. M. Day?

Mr. SCHNITZER. I did so; yes.

Mr. SIMON. Did you show it to him in connection with your urging him to increase the amount of the FHA commitment by approving a change order?

Mr. SCHNITZER. I had been requested by Mr. Day, after conferences in Washington, to obtain certain information with regard to certain costs incurred in connection with a propane-plant development for our Hill Field housing project.

Mr. SIMON. Was that telegram obtained in order to furnish Mr. Day with the information he had requested?

Mr. SCHNITZER. It was intended so; yes.

Mr. SIMON. The telegram is signed Portland Engineering Co.?

Mr. SCHNITZER. That is right.

Mr. SIMON. Is the Portland Engineering Co. owned by Mr. L. C. Newman?

Mr. SCHNITZER. I believe it is, sir; yes.

Mr. SIMON. L. C. Newman, doing business as Portland Engineering Co.?

Mr. SCHNITZER. I believe that is correct.

Mr. SIMON. Did Mr. Newman send that telegram to you?

Mr. SCHNITZER. No; Mr. Newman did not send that telegram.

Mr. SIMON. Did you send it to yourself?

Mr. SCHNITZER. I called Mr. Newman and could not obtain him on the phone.

Mr. SIMON. My question is, Did you send it to yourself?

Mr. SCHNITZER. Yes; the telegram was sent at my instructions.

Mr. SIMON. By your office in Portland?

Mr. SCHNITZER. That is correct.

Mr. SIMON. Typed by your employees?

Mr. SCHNITZER. That is correct.

Mr. SIMON. Picked up at your office by Western Union?

Mr. SCHNITZER. That is right.

Mr. SIMON. And paid for by your office?

Mr. SCHNITZER. That is right.

Mr. SIMON. Mr. Newman didn't know anything about it?

Mr. SCHNITZER. Mr. Newman didn't know about it until I was able to contact him on my return from Portland and went over the matter with him.

Mr. SIMON. That was after you presented it to FHA?

Mr. SCHNITZER. I left it at FHA to confirm certain information.

Mr. SIMON. Now, I show you a photostat of some papers addressed to the Federal Housing Administration, 210 Dooley Building, 109 West Second Street, Salt Lake City, Utah, attention Mr. Henry M. Day, director, on the stationery of the Portland Engineering Co., and ask you if you have ever seen those before?

Mr. SCHNITZER. Yes; I have seen these. These are invoices submitted to us by the Portland Engineering Co.

Mr. SIMON. I would like you to examine them carefully and make sure you want the record to show that those invoices were submitted to you by the Portland Engineering Co.

Mr. SCHNITZER. These invoices were received either through the mail or delivered by hand from the Portland Engineering Co.

Mr. SIMON. If you will notice on the covering letter, there are the initials—what are they?

Mr. SCHNITZER. L. R. N.

Mr. SIMON. L. R. N. What do they stand for?

Mr. SCHNITZER. I believe they stand for Leonard R. Newman.

Mr. SIMON. What is Mr. Newman's middle initial?

Mr. SCHNITZER. I have no idea.

Mr. SIMON. I show you his signature and see if it doesn't appear to be "C."

Mr. SCHNITZER. That is correct.

Mr. SIMON. His middle initial is "C," isn't it?

Mr. SCHNITZER. That is right.

Mr. SIMON. Of course he would have known his middle initial was not "R," wouldn't he?

Mr. SCHNITZER. As a matter of fact, the cover letter you have on top of these invoices, Mr. Simon, was prepared, I believe, and typed in our office at the direction of Mr. Newman. I don't recall.

Mr. SIMON. They were prepared and typed in your office?

Mr. SCHNITZER. That is right. He was not—he was not available to sign the letter, and, therefore, the letter was not signed by my secretary. It was not prepared for signature.

Mr. SIMON. Will you examine the invoices attached to that letter and tell me whether they were prepared in your office?

Mr. SCHNITZER. No, they were not.

Mr. SIMON. No, I am sorry. You are looking at the wrong ones. The invoices attached to the letter that has the L. R. N. on it.

Mr. SCHNITZER. Some of these may have been, some are not, definitely not. As a matter of fact, Mr. Newman and I worked very closely in the matter of the entire engineering for this entire job. Mr. Newman has not been paid to date. The two of us collaborated. I used part of my engineering background, he used his professional engineering background to try to develop an alteration, substitution and changing the heating plants for the Hill Field project which subsequently we did accomplish.

Mr. SIMON. Mr. Schnitzer—

Mr. SCHNITZER. I wish to finish, please.

Mr. SIMON. Would you look at the invoices your counsel has in his hand, now, which I understand are authentic invoices and you will notice on each one of them there is a stamp of the Portland Engineering Co. with Mr. Newman's signature through the middle of the stamp; is that right?

Mr. SCHNITZER. That is right.

Mr. SIMON. That appears on each invoice in the set in front of you?

Mr. SCHNITZER. I have copies of them in my Portland office.

Mr. SIMON. That stamp with his signature appears on each of those invoices?

Mr. SCHNITZER. That is right. He was asked by FHA to confirm invoices submitted to him, and he did so.

Mr. SIMON. Your invoices your counsel holds, none of those have his stamp or signature on, do they?

Mr. SCHNITZER. If you will note the dates—

Mr. SIMON. Answer my question, please.

Mr. SCHNITZER. No. I just stated the FHA office asked Mr. Newman independently to confirm to them the original invoices sent to him and returned and photostated and sent to FHA.

Mr. SIMON. My question is whether the invoices you have in your hand which do not have Newman's stamp on them were not prepared in your office?

Mr. SCHNITZER. I can't say all of them were. I believe 1 or 2 were under his direction.

Mr. SIMON. How many do you have there?

Mr. SCHNITZER. I doubt any at all were prepared in my office.

Mr. SIMON. How many are you holding in your hand?

Mr. SCHNITZER. I have four.

Mr. SIMON. Can you tell me whether any 1 of those 4 or all of them were prepared in your office?

Mr. SCHNITZER. I am not prepared at this time to say; I don't know.

Mr. SIMON. Did you ask Mr. Newman for some blank billheads of his and blank stationery telling him that the reason you needed it is sometimes you needed more copies of his invoice than he gave you?

Mr. SCHNITZER. No, that is not true.

Mr. SIMON. That is not true?

Mr. SCHNITZER. No.

Mr. SIMON. You are certain of that?

Mr. SCHNITZER. I wish to elaborate on it.

Mr. SIMON. Is that certain?

Mr. SCHNITZER. I wish to elaborate on it. I have never asked him for the purpose of making invoices, Mr. Simon.

Mr. SIMON. Please——

Mr. SCHNITZER. I want the record to show the truth.

Mr. SIMON. This is important to be truthful and that is why I want to know whether you asked Newman for blank stationery and blank invoices?

Mr. SCHNITZER. I did not ask him for blank stationery or blank invoices. My secretary asked him at the time he was dictating letters to FHA.

Mr. SIMON. My question to you was whether you, Harold Schnitzer, asked Newman for blank stationery and blank invoices.

Mr. SCHNITZER. I do not recall asking Mr. Newman. I do know that my secretary asked him at the time he was dictating letters.

Mr. SIMON. My question is whether you asked him for it.

Mr. SCHNITZER. Mr. Simon, I am under oath, and I want the record to show clearly the facts. I am stating Mr. Newman and I collaborated very closely. We made several trips to Salt Lake City with regard to this engineering.

Mr. SIMON. Because you are under oath it is important the record be accurate, and I would like you to tell me whether you asked Newman for blank stationery and blank billheads?

Mr. SCHNITZER. I do not personally recall ever asking Mr. Newman for blank stationery. I know we had some in the office. The secretary had asked him for some in connection with reports that had been given to FHA.

Mr. SIMON. A minute ago you said you had not asked him for it. Now you say you don't recall. Do you mean by that to indicate it is possible you did ask him for the blank stationery?

Mr. SCHNITZER. There are possibilities that I may have. I don't recall at this moment. I am testifying to the best of my memory.

Mr. SIMON. You are not willing to say under oath you did not ask him for it; are you?

Mr. SCHNITZER. I would not make a positive statement of that nature. It may develop perhaps I did, and I don't recall it.

Mr. SIMON. Now, I show you a document on the stationery of Portland Engineering Co., dated March 2, 1953, purporting to be a bill to your company for \$15,100 for engineering services. I ask you if you have ever seen that before?

Mr. SCHNITZER. That bill was typed in my office with the knowledge of Mr. Newman. I have a letter signed by Mr. Newman confirming the bill.

Mr. SIMON. Isn't it a fact that you helped him dictate the letter confirming the bill?

Mr. SCHNITZER. Mr. Newman and I——

Mr. SIMON. Is that a fact?

Mr. SCHNITZER. It may be possible that he and I prepared it together.

Mr. SIMON. Did you prepare it with him?

Mr. SCHNITZER. I believe that I may have prepared it together with him. I know that I reviewed it.

Mr. SIMON. Do you know whether you did or not?

Mr. SCHNITZER. This is dated back in March 2, 1953.

Mr. SIMON. Do you know whether you prepared the bill and the letter with Mr. Newman?

Mr. SCHNITZER. I will state maybe possibly.

Mr. SIMON. Do you know whether you did?

Mr. SCHNITZER. I cannot state at this time from my memory that I did or did not.

Mr. SIMON. Isn't it a fact, Mr. Schnitzer, that Mr. Newman's service represented by that bill was in the approximate amount of \$7,000 and the balance is padding?

Mr. SCHNITZER. No. That is a falsehood and I resent the implication.

Mr. SIMON. Are you prepared to say that the services that Newman performed there, he charged only \$7,000 for?

Mr. SCHNITZER. I am prepared to say the \$7,000 figure is incorrect.

Mr. SIMON. Is \$15,000 the correct figure?

Mr. SCHNITZER. At this particular time——

Mr. SIMON. No.

Mr. SCHNITZER. The \$15,000 is an incorrect figure. Mr. Newman submitted me an invoice approximately 2½ or 3 months ago approximately 1 year after this original estimate was submitted, and I wish the record to show that at the time this was submitted at the request of the FHA we were requested to submit estimates for the development of this particular program.

Mr. SIMON. Now, wait a minute. That bill is not an estimate. It is a bill for services, and you asked FHA to increase the commitment by that \$15,000; didn't you?

Mr. SCHNITZER. I asked FHA to increase the commitment by \$15,000; that is correct.

Mr. SIMON. Because of the Portland Engineering Co. bill for \$15,000?

Mr. SCHNITZER. Mr. Newman indicated to me he wanted that amount of money. I had no idea as to what the final bill might be by negotiation.

Mr. SIMON. Let us take one point at a time. You asked FHA to increase the commitment by \$15,000; is that right?

Mr. SCHNITZER. That is right, in my original estimate.

Mr. SIMON. You asked them for the increase because of Newman's bill to you for \$15,000; is that correct?

Mr. SCHNITZER. That is right; yes.

Mr. SIMON. At the time you presented that bill to FHA you knew that Newman was not asking \$15,000 for those services, didn't you?

Mr. SCHNITZER. No. That is an incorrect statement.

Mr. SIMON. You are certain of that now?

Mr. SCHNITZER. As a matter of fact, Mr. Simon, I want the record to show——

Mr. SIMON. I want you to answer my questions.

Mr. HUTCHINSON. He already answered your question.

Mr. SIMON. It is only proper.

Mr. HUTCHINSON. The question has been answered and answered "No."

The CHAIRMAN. I don't think the question has been answered.

Mr. SIMON. I want to be certain there is no occasion at a future date——

The CHAIRMAN. It is to the best interest of your client, I might say, that he state the facts.

Mr. HUTCHINSON. I want the facts, too, Mr. Chairman.

Mr. SIMON. We want to be sure there is no opportunity at a later date to say the record wasn't clear what we are talking about.

Mr. HUTCHINSON. I hope it is clear, myself, Mr. Simon.

Mr. SIMON. I want to make sure the record is clear, that at the time Mr. Schnitzer presented that bill for \$15,000 to FHA, is it your testimony that you did not know that \$15,000 was not Newman's fee?

Mr. SCHNITZER. I can't quite follow you on that, Mr. Simon. Just exactly what do you mean? At the time this estimate was submitted, Mr. Newman's services had not been completely terminated. It would be impossible for me at that time——

Mr. SIMON. Wait a minute.

Mr. SCHNITZER. Allow me to finish.

Mr. SIMON. Please let us not change facts.

Mr. SCHNITZER. A year ago, before the engineering service was completed, when I had submitted an estimate of that cost of engineering, I want the misunderstanding clear.

Mr. SIMON. Did you ever tell FHA that was an estimate?

Mr. SCHNITZER. They knew that. I signed a statement to that effect.

Mr. SIMON. Did you ever tell anybody that was an estimate?

Mr. SCHNITZER. Yes.

Mr. SIMON. Who?

Mr. SCHNITZER. I told Mr. Day.

Mr. SIMON. You told Mr. Day?

Mr. SCHNITZER. Yes.

Mr. SIMON. Where?

Mr. SCHNITZER. In his office in the presence of one of my personnel.

Mr. SIMON. Who was there?

Mr. SCHNITZER. Mr. Robert L. Conn.

Mr. SIMON. Give me the date.

Mr. SCHNITZER. The date would be approximately 4 or 5 months ago.

Mr. SIMON. Give me your best recollection of the date.

Mr. SCHNITZER. It was in the spring, approximately in April of 1954.

Mr. SIMON. Where did this take place?

Mr. SCHNITZER. It took place in the office of Mr. Henry Day, Director of the Federal Housing Administration in Salt Lake City.

Mr. SIMON. In the FHA office?

Mr. SCHNITZER. That is correct.

Mr. SIMON. What is your best recollection of the time of day?

Mr. SCHNITZER. I couldn't say whether it was morning or afternoon, sir.

Mr. SIMON. You have no recollection of the time of day?

Mr. SCHNITZER. No. I can place the month approximately.

Mr. SIMON. What was the month?

Mr. SCHNITZER. I stated it was in April of 1954.

Mr. SIMON. Do you know what day of the week it was?

Mr. SCHNITZER. No, I don't.

Mr. SIMON. Do you know whether it was the early part or latter part of April?

Mr. SCHNITZER. I wouldn't say without checking the records.

Mr. SIMON. What records do you have that will show when that occurred?

Mr. SCHNITZER. I have no records with me. I wasn't asked to bring any records.

Mr. SIMON. I asked you only what records you had that would show the date.

Mr. SCHNITZER. The change order 5 for the propane plant cancellation cost.

Mr. SIMON. Is this bill a part of change order 5? Or part of change order 77?

Mr. SCHNITZER. Change order 77, sir.

Mr. SIMON. This is part of change order 77?

Mr. SCHNITZER. That is right; yes.

Mr. SIMON. What records do you have that will show the date of this meeting?

Mr. SCHNITZER. I have records in my office that will approximately fix the time.

Mr. SIMON. What are the records?

Mr. SCHNITZER. The change order file, sir.

Mr. SIMON. What in the change order file will fix the date?

Mr. SCHNITZER. I submitted to Mr. Day a letter, at his request, breaking down personal overhead, or, rather, overhead expenses in connection with the propane-plant cancellation.

Mr. SIMON. And will the date on that letter help fix the date—the date on that letter fix the date of this meeting?

Mr. SCHNITZER. It could very well.

Mr. SIMON. Will it?

Mr. SCHNITZER. It might. I have had several discussions with the FHA office relative to this particular change order. I have never received 1 penny for that particular change, although I spent tens

of thousands of dollars in the improvement of the project, and it has been a matter that has gone back and forth to Washington, and we have been badly abused on the requested increase for that particular change.

Mr. SIMON. I had no reason to say this, but I think if you claim you are badly abused on the refusal to allow the change order, you know why that change order hasn't been approved; don't you?

Mr. SCHNITZER. I don't wish to criticize a man who has been dismissed from FHA or personnel who are no longer in FHA in Washington. However—

Mr. SIMON. Isn't the reason—

Mr. SCHNITZER. The records are clear, Mr. Simon, and I am prepared privately in executive committee hearings to present to you all of the evidence in connection with the propane-plant development.

Mr. SIMON. Isn't it true that the reason that that change order hasn't been approved is that they don't believe the amounts you are claiming are accurate?

Mr. SCHNITZER. That is entirely wrong, sir.

Mr. SIMON. Let us get back. We want to make this case clear. We are getting back to this bill for \$15,100. What is the relationship between this letter that breaks down your overhead and the conference about this bill?

Mr. SCHNITZER. There is no relationship whatever.

Mr. SIMON. How will that letter refresh your recollection as to the date of this meeting?

Mr. SCHNITZER. Because Mr. Day, personnel in his office, representatives in my office, held a conference approximately 1 week after I returned from Washington after I talked to Mr. Walter Greene and personnel in the Washington office regarding valuation of this particular change order; in sum and substance, I would like the record to show—

Mr. SIMON. Let us stick to the facts. When we get through you can make all the talks you want. I want to get this one little point cleared up.

We are now talking about this \$15,000 bill. You say you had a meeting in April of this year?

Mr. SCHNITZER. I believe it was April of this year; yes, sir.

Mr. SIMON. In Mr. Day's office?

Mr. SCHNITZER. That is right.

Mr. SIMON. Now, you say there are some things in your file that will help you fix the date; is that right?

Mr. SCHNITZER. You asked me for an exact date, an hour in the afternoon or the morning, and I told you I couldn't exactly place it.

Mr. SIMON. You say there is something in your file that will help you fix it.

Mr. SCHNITZER. It will fix the date; yes, sir.

Mr. SIMON. You say that is a letter that you wrote FHA giving the breakdown of overhead?

Mr. SCHNITZER. Overhead, travel expenses, and personal engineering items.

Mr. SIMON. What relationship is there between this meeting, the date of the meeting, and that letter?

Mr. SCHNITZER. I believe that at that particular time I discussed with Mr. Day the matter of the Portland Engineering Co. fees.

Mr. SIMON. What day?

Mr. SCHNITZER. The date that I submitted to Mr. Day a letter showing breakdown of our own company expenses.

Mr. SIMON. Then this letter that gives the breakdown of company expenses you delivered to him?

Mr. SCHNITZER. I delivered by hand.

Mr. SIMON. That is the letter that shows your services were in there at \$100 a day for 90 days?

Mr. SCHNITZER. That is right.

Mr. SIMON. That is the letter?

Mr. SCHNITZER. That is the letter.

Mr. SIMON. Would you say that that letter was dated the day before this meeting, then?

Mr. SCHNITZER. I believe that it was typed the day before, the afternoon before.

Mr. SIMON. And dated the day it was typed?

Mr. SCHNITZER. I believe it was. It was typed by the public stenographer in the hotel.

Mr. SIMON. In Salt Lake?

Mr. SCHNITZER. In Salt Lake; yes, sir.

Mr. SIMON. Was it delivered the same or next day?

Mr. SCHNITZER. I believe the next day.

Mr. SIMON. This meeting we are now talking about will be the day after that letter?

Mr. SCHNITZER. It may have been. I want the record to show we had several meetings regarding the Portland Engineering fee. I do definitely recall at the time I came into the FHA office with the particular letter to which you have just referred showing the breakdown of our company fees the FHA was greatly distressed because little Walter Greene had just resigned in Washington, and he had been one of the parties in a conference——

Mr. SIMON. That was a year or more ago.

Mr. SCHNITZER. I am referring to this past year.

Mr. SIMON. Walter Greene hasn't been there this past year. I am talking about this \$15,000 bill which you seem to try to get away from. I want to stick with it for a few minutes.

You had this meeting with Day, the day after that letter was dated; is that right?

Mr. SCHNITZER. That is correct.

Mr. SIMON. And you say that on that day you told him that this \$15,100 bill was purely an estimate; is that right?

Mr. SCHNITZER. That is right.

We discussed all of the items on the change order, including that particular item.

Mr. SIMON. Will you give me the conversation you had with Day that day?

Mr. SCHNITZER. I couldn't tell you.

Mr. SIMON. About this \$15,000 bill?

Mr. SCHNITZER. I told Mr. Day that it was an estimate, that I had not yet made a final settlement with Mr. Newman, and it was entirely possible that Mr. Newman might reduce his bill.

Mr. SIMON. You are certain of that now?

Mr. SCHNITZER. Yes. I have made those statements to Mr. Day.

Mr. SIMON. What is the date of this letter that you and Mr. Newman jointly wrote, explaining and justifying this \$15,100 bill?

Mr. SCHNITZER. I don't recall the date. It was written in the spring of this year. I do want to say, Mr. Simon, you are wrong when you state Mr. Greene hasn't been there for a year because he was there exactly 1 week previous to the time that I submitted a particular letter to which you have just referred, at the time of Mr. Greene's leaving FHA has a very significant time in establishing time.

Mr. SIMON. I stand corrected. Mr. Greene left in April of this year.

Let us go back to this letter that you and Newman wrote, which is a page-and-a-half long, isn't it?

Mr. SCHNITZER. I don't recall the length of it. I was asked by FHA to obtain a letter from Mr. Newman explaining the nature of his services, and the nature of the fee.

Mr. SIMON. When you dictated that letter in his office, the two of you, did he tell you then, and was it understood between you then, that the fee was going to be very substantially less than the \$15,100?

Mr. SCHNITZER. I don't think we had any agreement as to exact settlement at the time.

Mr. SIMON. Did he tell you the fee—

Mr. SCHNITZER. We did discuss it.

Mr. SIMON. Did he tell you the fee would be about \$7,000?

Mr. SCHNITZER. No, sir.

Mr. SIMON. You are satisfied of that?

Mr. SCHNITZER. I believe I recall that quite clearly. There was no discussion as to an exact settlement.

Mr. SIMON. Wait a minute. You say you believe that. I want to know whether you are saying unequivocally that Mr. Newman did not tell you that his fee would be, and I forget the exact amount, but it is well below \$10,000?

Mr. SCHNITZER. I believe the final amount was pretty close to if not \$10,000.

Mr. SIMON. I am talking about a figure of somewhere around seven.

Mr. SCHNITZER. At the particular time, Mr. Simon, I think we had invoices amounting to approximately \$10,000.

Mr. SIMON. Let us get back to the day you dictated the letter.

Mr. SCHNITZER. Mr. Newman and I prepared the letter.

Mr. SIMON. Didn't you ask him to write that letter, knowing at the time that his fee was going to be substantially less than the \$15,100 called for in the letter?

Mr. SCHNITZER. I can't say that I knew at that time the fee would be less because I have never controlled the amount of Mr. Newman's fees. He is an independent engineer.

Mr. SIMON. Didn't he tell you that the fee would be an amount which was substantially less than \$15,000?

Mr. SCHNITZER. It is my memory Mr. Newman was quite non-committal with regard to any final settlement.

Mr. SIMON. I don't want to tell you what the facts are, but I would wonder, are you willing to say that at the date you signed this—you and he dictated this letter that he signed—you did not know that his fee was going to be less than \$15,100?

Mr. SCHNITZER. I would not state specifically we received the final invoice at the time of the letter.

Mr. SIMON. I didn't ask you that.

Mr. SCHNITZER. How, possibly, Mr. Simon—let us not twist words—how possibly could I have known that the date I wrote that letter that Mr. Newman's fee would be an amount less than \$15,000?

Mr. SIMON. One way would be if he told you so.

Mr. SCHNITZER. I don't recall his telling me that at all. He told me that he was going to submit a bill. He did not mention the amount.

Mr. SIMON. I have been trying now for almost half an hour to get you to tell us whether when you and he dictated the letter to FHA, justifying the bill of \$15,100, whether you knew that the fee was going to be substantially less than \$15,100?

Mr. SCHNITZER. I cannot state if he told me that date or if he later sent by mail a bill for the final services. As a matter of fact, the bill for final services was submitted by mail to the office.

Mr. SIMON. I am trying to find out whether you took to FHA a bill and a letter in support—I am trying to find out from you, Mr. Schnitzer, whether you took to FHA a bill and a letter in support of an application by you to raise the commitment \$15,100 for engineering services, which you knew to be false?

(There was a conference between the witness and his counsel.)

Mr. SCHNITZER. Will you repeat the question, sir?

Mr. SIMON. Yes, sir.

I would like to know from you whether, when you took to FHA Newman's bill for \$15,100 and the letter you and he had composed in support of that bill, in connection with your application, change order 77, which raised the commitment by that amount, that you knew the letter and the bill were false?

Mr. SCHNITZER. I cannot subscribe to your statement. You said the word "false." If you will allow me to state the facts, Mr. Simon, as I tried to for the last 15 minutes, we can save the committee a lot of time.

Mr. SIMON. I think we would save more time if you would just answer my questions.

Mr. SCHNITZER. I will state absolutely that I did not at the time submit a bill which I knew to be false.

The CHAIRMAN. Did you think the bill would be \$15,000 at that time?

Mr. SCHNITZER. Very frankly, Senator, I thought his services were worth more than \$15,000. I have been trying to tell Mr. Simon here the exact circumstances and the understanding between Mr. Newman and I.

May I tell you, Senator?

Mr. SIMON. What we are trying to find out, Mr. Schnitzer, is not what your arrangement with Mr. Newman was, but we are trying to find out whether this was a false bill, and a false letter in support of it that you presented to FHA.

The CHAIRMAN. Can't you answer that "Yes" or "No"?

Mr. SCHNITZER. It was not a false bill and it was not a false letter. I have answered that repeatedly.

Mr. SIMON. As long as we are talking about fair play, let us get all the facts on this item.

This letter that you and Mr. Newman jointly composed to FHA, is it dated April 22, 1954?

Mr. SCHNITZER. May I see the letter?

Mr. SIMON. Yes. Is that the letter?

Mr. SCHNITZER. That is the particular letter; yes, sir.

Mr. SIMON. May I have it back?

Mr. SCHNITZER. Yes, sir.

Mr. SIMON. That letter was presented by you to FHA, wasn't it?

Mr. SCHNITZER. It was mailed to the Federal Housing Administration.

Mr. SIMON. It starts out by saying:

Your request has been received for verification of charges made by our company against Harsh Investment Corp., in connection with engineering and services for the Hill Field propane plant during the period August 1952 to February 1953—

and this letter is April 1954.

Our charges for engineering and services total \$15,100. Our travel expenses charged to Harsh were \$500. I should like to explain the nature of the work we did in connection with the propane-plant program for the Harsh people.

Then it goes on to explain it.

Mr. SCHNITZER. I would like you to read the whole thing so the public and press can understand the tremendous amount of work, and when I stated the FHA had abused me in considering the cost, I mean that statement.

Mr. SIMON. Well, now, so far as the work is concerned, we have no quarrel with Mr. Newman, except—we have no quarrel with Mr. Newman at all, and we are not suggesting for a minute that \$15,000 or more wouldn't have been a fair fee for him. I want you to know and everyone else that we are not saying Mr. Newman tried to get that much money. That isn't the issue. The issue is whether you tried to get FHA to give you a substantially increased allowance than the amount Newman was charging you.

The CHAIRMAN. Let me say this: Either you or Newman is wrong, one or the other.

Mr. SCHNITZER. Senator, I don't believe either one of us is wrong, frankly. Mr. Simon has just stated he has no quarrel with the amount of time in the bill. Mr. Newman has signed this particular letter, reaffirming, confirming the fact he had billed me \$15,000.

Mr. SIMON. He says it is a phony.

Mr. SCHNITZER. Tell me where he says it is a phony.

Mr. SIMON. He doesn't say the letter is a phony, but he says this is a phony.

Mr. SCHNITZER. I dictated and he signed it. Is that his signature?

Mr. SIMON. No question about it, you and he dictated it and he signed it.

The CHAIRMAN. Let me be frank. Either you or Newman are lying. We could settle the whole matter there. I am not saying who it is. I don't know. One or the other of you is. Let us get on with something else. I don't know who it is, but one or the other is, and it is our responsibility and duty to find out who it is.

Mr. SCHNITZER. I want the record to show I don't think either one of us is lying. I think the facts fully explored will show we left it to the FHA to determine a fair fee.

The CHAIRMAN: We have had Mr. Newman's testimony.

Mr. SCHNITZER. Probably you have.

Mr. HUTCHINSON. Are you going to have it in opposition?

The CHAIRMAN. Yes, sir. It looks like we will have to continue this business.

Mr. SIMON. Mr. Schnitzer, who is W. J. Thompson?

Mr. SCHNITZER. W. J. Thompson is a sheet-rock contractor in San Francisco, Calif.

Mr. SIMON. Is he—

Mr. SCHNITZER. He operates under the name of W. J. Thompson.

Mr. SIMON. No corporation?

Mr. SCHNITZER. Not to my knowledge.

Mr. SIMON. Where does he live?

Mr. SCHNITZER. I don't have his address. It is in the San Francisco area. He performed work at the Hill Field job.

Mr. SIMON. What work did he perform?

Mr. SCHNITZER. He installed the sheet rock at the job.

Mr. SIMON. What did he do precisely?

Mr. SCHNITZER. Sheet rock is wallboard.

Mr. SIMON. How much sheet rock did he install?

Mr. SCHNITZER. I believe the contract was one-hundred-some-thousand dollars.

Mr. SIMON. How much sheet rock did he install?

Mr. SCHNITZER. I don't have the exact figures, sir.

Mr. SIMON. Do you have a contract with him?

Mr. SCHNITZER. We do, definitely.

Mr. SIMON. Could you give us a copy of his contract?

Mr. SCHNITZER. I would be glad to give you a copy. As a matter of fact, your people have had the contract in their hands for 10 days.

Mr. SIMON. Who?

Mr. SCHNITZER. Mr. Fink, of your committee, had it for over a week in Portland.

Mr. SIMON. I regret that Mr. Fink left here this morning, but it is because he asked me to ask you these questions, I do.

Mr. SCHNITZER. Possibly if the file was missing at the time he came to my office—he removed various files from my office a couple of weeks ago, that particular file might be in Utah in court.

Mr. SIMON. Why did you say 10 seconds ago Fink had the contract, and now you say it is in Utah?

Mr. SCHNITZER. If Mr. Fink didn't see it, I take his word it is not in the files. I didn't review all the files he took. I wasn't there then.

Mr. SIMON. Who is Irving Jacobson?

Mr. SCHNITZER. A hardware dealer in Portland, Oreg., who operates under the name of Irving Jacobson.

Mr. SIMON. You gave us some statements of invoices and one of them was to Irving Jacobson Co., 724 Third East Street, Salt Lake City, Utah. Do you recall that company?

Mr. SCHNITZER. May I see the document to which you are referring?

Mr. SIMON. I am referring to a typewritten list that our people took from your books, but I don't think it will refresh your recollection.

Mr. SCHNITZER. I want to question you, sir—who prepared this? I never prepared that.

Mr. SIMON. I didn't say you did.

Mr. SCHNITZER. Your people have taken that information.

Mr. SIMON. I said that a minute ago.

Mr. SCHNITZER. Possibly by mistake they copied the address wrong.

Mr. Jacobson is located in Portland, Oreg.

Mr. SIMON. Have you ever done business with an Irving Jacobson Co. at 724 Third East Street, Salt Lake City, Utah?

Mr. SCHNITZER. I know of no such firm.

Mr. SIMON. Irving Jacobson Co., that is a hardware dealer in Portland?

Mr. SCHNITZER. That is right.

Mr. SIMON. What business have you done with them on the Hill Air Force Base?

Mr. SCHNITZER. We have done tens of thousands of dollars worth of business, which cover the purchase of hardware items, doors, miscellaneous equipment for the Hill Field project.

Mr. SIMON. Do you have invoices from them?

Mr. SCHNITZER. We definitely do, sir.

Mr. SIMON. Where are they?

Mr. SCHNITZER. They are located in Portland, Oreg. They are available to your committee.

Mr. SIMON. Do you know a law firm in Portland called Rawlings, Roberts, Walsh & Black—Salt Lake City, excuse me, the Judge Building in Salt Lake City, Utah?

Mr. SCHNITZER. I do know such a firm.

Mr. SIMON. In July 20, 1953, you gave them a check for \$7,092.78. Do you recall that?

Mr. SCHNITZER. May I see the check?

Mr. SIMON. Yes.

(An instrument was handed to the witness.)

Mr. SCHNITZER. I recall signing this particular check, and I—

Mr. SIMON. What was that for?

Mr. SCHNITZER. I believe at the time I authorized the firm to make a settlement, if not two settlements, with particular subcontractors. I couldn't exactly say. I don't think this covered legal fees for work that they had performed.

Mr. SIMON. Do you know what it did cover?

Mr. SCHNITZER. I couldn't say without checking the records. I would be glad to do so.

Mr. SIMON. Thank you.

Do you know of a Columbia Aluminum Products Co.?

Mr. SCHNITZER. I do.

Mr. SIMON. Where is their place of business?

Mr. SCHNITZER. They do business in the city of Portland, Oreg.

Mr. SIMON. What did you buy from them?

Mr. SCHNITZER. They did considerable work at the Great Falls job as well as the Hill Field job, and did the installation of the heating.

Mr. SIMON. What did they do at the Hills job?

Mr. SCHNITZER. They installed all of the sheet metal and installed the furnaces.

Mr. SIMON. Do you know where they bank?

Mr. SCHNITZER. I believe it is the First National Bank of Portland, Oreg.

Mr. SIMON. Senator, I have no further questions to ask until we are prepared to have completed our audit of these books, and I would

suggest that we have Mr. Newman here also when we hear Mr. Schnitzer again.

The CHAIRMAN. Then we will continue this hearing to New Orleans until next Thursday at which time we will subpoena Mr. Newman also.

Mr. SCHNITZER. Senator, we have offered all of the facts and information. Your people have had my complete files with respect to the Hill Field job and have been offered all the information they requested in Portland, Oreg., for a period of 10 days.

Mr. SIMON. Mr. Schnitzer, I don't think I can let that statement go without refuting it. We got nothing from you except by subpoenas. You called me in Washington several times to complain that you shouldn't be required to give up this, that, and the other document, and we still have no way of knowing that we have received everything we have asked for.

Mr. HUTCHINSON. If I can speak for just a moment, your investigator called my office, as Mr. Schnitzer's attorney in this particular matter. I repeated not once, but twice, the invitation to use the offices of Mr. Schnitzer, to examine his records. I don't think we have any quarrel on this, but I wanted you to know it was not an effort to evade giving you the records, but the hope that you wouldn't take the records out in a truck, as your investigators once did.

Now, I repeat again, the records are available to you if you want to use the facilities where they are maintained to carry on his regular business to examine them. They are available today, tomorrow, next week, and next year.

Mr. SIMON. We know they are available, of course.

Mr. HUTCHINSON. They are available to you, Mr. Simon, without subpoena or with, if you choose.

Mr. SIMON. They weren't until we did subpoena, and we did subpoena, and we did have them, and we now do have what we want.

The CHAIRMAN. Let me say this: As far as I am personally concerned in this committee, the cooperation we have had has not been satisfactory.

Mr. HUTCHINSON. It has been good since last week, Senator. I wrote you a letter to that effect.

The CHAIRMAN. Since we subpoenaed you, sir.

Mr. HUTCHINSON. No subpoena.

The CHAIRMAN. Since you personally got on the case.

Mr. HUTCHINSON. Yes. I mean that.

The CHAIRMAN. Prior to that time we had to subpoena them. We will continue the hearing until 10 o'clock—

Mr. SIMON. September 9.

The CHAIRMAN. September 9, in the Jung Hotel in New Orleans.

Mr. HUTCHINSON. Is it not possible to continue here in Los Angeles?

The CHAIRMAN. It is not. We have to study the checks and records you gave us. We do not have time to do it.

Mr. SCHNITZER. I was asked permission to make a statement at the closing. I would like to do so.

I would like this statement to be on the record.

The CHAIRMAN. It will be on the record.

Mr. SCHNITZER. Thank you.

On Monday, the 29th, an article appeared in various west-coast newspapers quoting Mr. Milton D. Goldberg, Los Angeles accountant,

as having given evidence to this committee concerning my building operations. The article stated that Mr. Goldberg had reported to the committee counsel, Mr. Simon, that I used FHA funds without putting up any cash of my own and that I netted \$1 million on these transactions. The article, and the information on which it is based, is completely distorted and untrue.

Now that I am under oath, I wish to tell the committee what investments were made in the FHA work that I have done. I also want the committee to know what profit resulted from these operations. I hope that when the true facts are known that they will receive the same publicity that the false information received.

These projects required investments, over and above mortgage funds, of approximately \$1,200,000.

The CHAIRMAN. Was that capital invested or money that was loaned and repaid to you?

Mr. SCHNITZER. That, sir, was money put up in accordance with FHA requirements, cash, escrow requirements.

The CHAIRMAN. And later repaid to you?

Mr. HUTCHINSON. It is explained later.

The CHAIRMAN. Answer my question. Was it later repaid to you?

Mr. SCHNITZER. All of the money has not been repaid.

The CHAIRMAN. Will it be repaid to you?

Mr. SCHNITZER. No, sir.

The CHAIRMAN. How much capital investment have you made in these three projects?

Mr. SCHNITZER. We have made \$1,200,000 of investment.

The CHAIRMAN. That money will remain in the corporation?

Mr. SCHNITZER. I believe the balance of my statement will give you the information. These investments were made; in fact, there is still invested the sum of approximately \$375,000 as of this date.

Now as to profits: At the present time my construction costs substantially exceed the total available mortgage funds. In the event that I receive payment for work done in excess of that required under the plans, I will still remain with a substantial investment in these projects. As of today, on over \$8 million of Wherry construction, I do not anticipate making 1 cent of profits from mortgage funds.

These are the true facts.

Mr. SIMON. Mr. Schnitzer, since you have taken occasion to make that statement, which I think is quite false, I would like to ask you a couple of questions just so the record will be clear.

When you bought something for these projects—first, how many corporations did you have in this picture?

Mr. SCHNITZER. We had five corporations, sir.

Mr. SIMON. You are including Pacific Coast as a corporation?

Mr. SCHNITZER. Yes, sir.

Mr. SIMON. The Hill Air Force Base was built by the Harsh Investment Co.?

Mr. SCHNITZER. Harsh Investment acted as the contractor.

Mr. SIMON. When Harsh Investment wanted to buy some material from a lumber dealer, let us say, did Harsh Investment buy it from the lumber dealer or did Pacific Coast buy it from the lumber dealer and then resell it to Harsh Investment?

Mr. SCHNITZER. Pacific Coast Equipment Co., when we started our job—

Mr. SIMON. Just answer my question.

Mr. SCHNITZER. Did the purchasing, and it was the only business which I had at the time in operation.

Mr. SIMON. The costs you are talking about here are the costs that Harsh Investment paid Pacific Coast; is that right?

Mr. SCHNITZER. Senator—rather, Mr. Simon—

Mr. SIMON. Is that right?

Mr. SCHNITZER. As to Pacific Coast, let us dispose of it once and for all.

Mr. SIMON. Wait a minute. Are the costs that you referred to in the statement you just made costs based on the amount that Harsh Investment paid Pacific Coast?

Mr. SCHNITZER. No, Mr. Simon. I am talking about costs, exclusive of intercompany profits.

Mr. SIMON. Are you also talking about costs exclusive of the salaries you drew from all these companies?

Mr. SCHNITZER. No. I did draw a salary of \$15,000 a year from each job.

Mr. SIMON. I understand that your own auditors' report, prepared by a fellow named Greeves, shows that if you eliminated all of these intercompany transactions, and eliminate the salaries you paid yourself, that the mortgage proceeds were a quarter of a million dollars in excess of all the costs, and that you have no investment.

Mr. SCHNITZER. Mr. Simon, I gave testimony earlier as to the mortgage. Will you refresh your memory and tell me what the mortgage was? That particular statement that you have in your mind, this thing has plagued me and I have just made a statement for the record—

Mr. SIMON. These are your auditors, aren't they?

Mr. SCHNITZER. Yes. I want to clarify it, and I think by simple mathematics you can see in your own mind that the statement made by Mr. Goldberg is wholly untrue.

Mr. SIMON. Let me say this: As you know, Air Force auditors, working with us, have had your books. The General Accounting Office auditors working with you have had your books, and we hope on next Wednesday to be prepared to put into the record their conclusions of what your books show.

Mr. SCHNITZER. Very good, sir.

The CHAIRMAN. Mr. Wright, will you please come forward.

Mr. Arthur C. Wright?

Mr. Wright, will you be sworn:

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. WRIGHT. I do.

TESTIMONY OF ARTHUR C. WRIGHT, HOME BUILDERS INSTITUTE, LOS ANGELES, CALIF.

The CHAIRMAN. Will you be seated, please.

Will you give your full name and address to the reporter?

Mr. WRIGHT. Arthur C. Wright, 2357 West Washington Boulevard, Los Angeles 18, Calif.

The CHAIRMAN. What is your business?

Mr. WRIGHT. I am a builder.

The CHAIRMAN. You are a builder?

Mr. WRIGHT. That is correct.

The CHAIRMAN. Do you have any FHA mortgages, or do business with FHA?

Mr. WRIGHT. I have in the past, not since 1945.

The CHAIRMAN. How many houses did you build under which the FHA guaranteed the mortgages prior to 1945?

Mr. WRIGHT. I don't remember exactly, Senator. I would say somewhere in the neighborhood of 500 to 700.

The CHAIRMAN. Are you the president of the Home Builders Institute?

Mr. WRIGHT. I am.

The CHAIRMAN. What is the Home Builders Institute?

Mr. WRIGHT. The Home Builders Institute is an association of home builders, a local chapter of the National Association of Home Builders.

The CHAIRMAN. You are president of the local chapter?

Mr. WRIGHT. Yes.

The CHAIRMAN. Do you get a salary for that?

Mr. WRIGHT. I do not.

The CHAIRMAN. You work without any salary?

Mr. WRIGHT. I work without a salary.

The CHAIRMAN. Do you spend all your time working at the job?

Mr. WRIGHT. No.

The CHAIRMAN. What is your business, then?

Mr. WRIGHT. I am a builder.

The CHAIRMAN. You are a builder?

Mr. WRIGHT. I am a builder.

The CHAIRMAN. But at the moment you haven't built any houses or any buildings that have been guaranteed by FHA mortgages since 1945?

Mr. WRIGHT. That is correct. At the present time we are building under other financing.

The CHAIRMAN. Are you familiar with the laws governing the different titles of the FHA laws?

Mr. WRIGHT. I am.

The CHAIRMAN. You haven't had any building under them since 1945?

Mr. WRIGHT. That is correct.

The CHAIRMAN. But you do keep up with the laws?

Mr. WRIGHT. That is correct.

The CHAIRMAN. I show you this. Did you make those statements that are reported in the newspapers?

Mr. WRIGHT. Senator, I haven't read that statement. I do have a statement that was printed in the Times which I have to check back with my statement.

The CHAIRMAN. Just tell me whether or not you made the statements credited to you there. We are trying to learn something. The purpose of this investigation is to get the facts and learn as much as we can. We read that statement I just handed you, plus others you made, and we felt maybe you had some information that we ought to have.

(A document was handed to Mr. Wright.)

Mr. WRIGHT. Senator——

The CHAIRMAN. Did you make that statement?

Mr. WRIGHT. I didn't make it exactly as that.

The CHAIRMAN. How many members are there in your association?

Mr. WRIGHT. Approximately 300, a little over 300.

The CHAIRMAN. Is Mr. Ben Weingart a member?

Mr. WRIGHT. He is not.

The CHAIRMAN. Is the Consolidated Hotels a member?

Mr. WRIGHT. They are not.

The CHAIRMAN. Is Mr. Louis Boyer a member?

Mr. WRIGHT. He is not.

The CHAIRMAN. Are Weber and Diller members?

Mr. WRIGHT. Weber and Diller both are members.

The CHAIRMAN. How many members of your association have been before this committee since we have been here?

Mr. WRIGHT. I haven't personally followed all the members that have been before your committee.

The CHAIRMAN. Did your board of directors authorize you to make the statements you have made?

Mr. WRIGHT. They did not.

The CHAIRMAN. Did you consult with them?

Mr. WRIGHT. I consulted with part of my—some of the members of my executive committee.

The CHAIRMAN. Will you tell us their names?

Mr. WRIGHT. I consulted with Paul Burkhardt?

The CHAIRMAN. What is the name of his company?

Mr. WRIGHT. Paul L. Burkhardt Co. He is a builder. I would say that Paul L. Burkhardt is the only man who I consulted with on this particular statement. We have discussed making statements prior to this.

The CHAIRMAN. Now, you say here, " 'It is a shame,' Wright said, 'that this investigation with its flood of misleading headlines has been conducted for some political or other reason which we cannot understand.' "

Will you give us the reasons as to why you made that statement?

Mr. WRIGHT. Senator, if you will remember, I said that that was in part what I said—that that had been rewritten. If you would like to take the time to read this statement, this is exactly what I did say.

The CHAIRMAN. No. I just want to know what is it that you and the other builders in Los Angeles whom you represent—what is it you object to as to what we are doing? Do you think that we are wrong?

Mr. WRIGHT. Senator——

The CHAIRMAN. Or have you got something to cover up; you are ashamed of it and are trying——

Mr. WRIGHT. We have nothing to cover up.

The CHAIRMAN. Why aren't you cooperating with us in cleaning up your own house instead of throwing stones in our way?

Mr. WRIGHT. Wait just a minute, Senator. If you would read my statement as I did say instead of a rewrite of the statement as somebody else wrote it——

The CHAIRMAN. In other words, are you saying the Daily News misquoted you?

Mr. WRIGHT. They misquoted on part of that. They misquoted on part of that, Senator. If you would read this statement as I did state it, this one that is quoted in the Los Angeles Times of this morning is the statement that I wrote.

The CHAIRMAN. Let me ask you this: You say here, "The result," he said, 'has been to shake confidence in the Federal Housing Administration, the only good agency in modern history which has made a profit for the Public Treasury.'"

Mr. WRIGHT. That is a correct statement, as I understand it.

The CHAIRMAN. The only governmental agency in modern history which has made a profit for the Treasury?

Mr. WRIGHT. Do you know of any other, Senator? If you do, I do not.

The CHAIRMAN. Has the Federal Housing Agency made a profit for the Treasury?

Mr. WRIGHT. The Federal Housing Agency has made a profit. They returned all of their money—

The CHAIRMAN. Who introduced the bill to have it returned?

Mr. WRIGHT. I do not know.

The CHAIRMAN. You are looking at him, Senator Capehart.

What committee handles the housing legislation?

Mr. WRIGHT. Your committee handles it.

The CHAIRMAN. Who passed the housing bill in 1954?

Mr. WRIGHT. You were the leading—

The CHAIRMAN. Yes. I introduced the bill. This committee handled it.

Mr. WRIGHT. That is correct, Senator.

The CHAIRMAN. What about RFC and what about the Federal Deposit Insurance Company? They returned all their money to the United States Treasury. I introduced the bill that returned that money, too. I could give you many agencies that the Government has advanced money to that has been returned.

You say we are doing this for some political reason. What is the political reason?

Mr. WRIGHT. I do not know.

The CHAIRMAN. Are you familiar with the fact that the Senate Banking and Currency Committee has 15 members, 7 Democrats and 8 Republicans, that voted unanimously for this investigation? Are you condemning the President of the United States who started this investigation? Are you saying this investigation should not take place? Are you condoning the irregularities and the abuses that we have found and are finding every day? Please answer that question.

Mr. WRIGHT. All right. I will be very happy to answer these questions, Senator, and see if I can take them up.

No. 1, we of the Home Builders Institute, a group of builders here, are the builders, 90 percent, of the houses in this area. We are interested in anything that affects our business as builders. We were apprehensive of anything that is going to affect us adversely. This statement was given yesterday morning, prior to us finding out anything that has been brought up here. We are willing and glad to cooperate with you and with your committee, ferreting out any wrongdoings of any of our members.

The CHAIRMAN. Why didn't you make such a statement as that instead of the statement that you made?

Mr. WRIGHT. Senator, you have read part of the statement there that was a rewrite. If you would read this statement that I did make you would know exactly what I said.

The CHAIRMAN. Well, read it out loud.

Mr. WRIGHT. I haven't got my glasses here with me.

The CHAIRMAN. Give it to one of our clerks to read.

Which statement are you talking about?

Mr. WRIGHT. This statement.

Mr. SIMON. Starting "Current hearings"?

Mr. WRIGHT. That is right.

Mr. SIMON (reading):

Current hearings into alleged Federal Housing Administration malpractices should not cast a shadow over the fact that the FHA and the building industry worked together to break the "worst housing shortage in American history," an industry spokesman declared here yesterday.

Arthur C. Wright, president of the Home Builders Institute, spoke out in praise of the Federal agency, and the Nation's home builders to counteract "serious public misunderstandings" that might arise from the hearings being conducted here by a Senate subcommittee.

TEAMWORK CITED

"We should keep in mind the background of how the FHA and the private home builders of America formed a team which broke the worst housing shortage in American history, enabled millions of families to own their own homes, made brilliant progress in redevelopment of slums, reversed the spread of blight—and did all of this at a cost of not one cent to the American taxpayer," Wright said.

He declared that both political parties voted for provisions making possible the so-called windfall profits now under investigation in connection with the financing and construction of rental properties, homes, and home improvements.

VETERANS' HOUSING

He said the law was designed to provide housing for veterans and "did that very thing more successfully than we had ever hoped."

The windfall provisions were the incentive that sparked the construction of 10 million homes since World War II, making the American people "better housed than any other nation has ever been in history," Wright said.

In the Los Angeles metropolitan area alone, he pointed out, about 675,000 homes have been built since the war—more than 5 percent of all those built in the United States.

Some 750 projects have been built in the Los Angeles area over the same period under FHA section 608, he added.

PROFITS INEVITABLE

"It is to be anticipated that somebody made money," said Wright. "Without a provision for profit the home builders and the financial institutions would never have gotten the job done. The job either wouldn't have been done at all, or the Government would have had to do it."

He called FHA the only Government agency in modern history which has made a profit for the Public Treasury, and charged that the current investigation is being conducted "for some political or other reason * * * in such a way as to shake public confidence in the FHA."

Consequently, he charged, "a stigma has been placed on the home-building industry and one of the finest units of Federal Government because of the sharp practices of a relatively few rental building contractors."

POSTWAR PRESSURES

"In this time of Senator Capehart's investigation," Wright urged, "let us remember the terrible pressures of only a few years ago. Let us remember that the public and the Government begged the home-building industry to do a tremendous job. Let us remember that the team of FHA and the home builders got the job done."

"Let us remember that in our dynamic, growing country, there is still a big job to do and everybody—the public, the Government, and the home-building industry—will suffer if unjust persecution is conducted against those who did things which were sanctioned by law and done under the pressure of the housing shortage emergency.

"Let us not kill the team that built 10 million homes for people in every walk of life."

I ask you, did you know that last week in New York we had the testimony from the brother of the FHA State director that he received \$400,000 in fees in FHA matters, and gave \$48,000 to his brother, who was the FHA State director?

Mr. WRIGHT. I did not.

Mr. SIMON. You didn't know that?

Mr. WRIGHT. I didn't know that. I knew you were conducting hearings there, but—

Mr. SIMON. I refer to Tom Grace, who was the State director, and who got the \$48,000, and his brother, George Grace, who got fees of \$400,000 on FHA matters. You would not condone that; would you?

Mr. WRIGHT. I would not.

Mr. SIMON. You knew that Clyde Powell was the head of rental housing in all of FHA for the whole country?

Mr. WRIGHT. I knew that Clyde Powell was connected with FHA.

Mr. SIMON. Did you know he was Assistant Commissioner in charge of rental housing for the whole United States?

Mr. WRIGHT. I wasn't absolutely familiar with what his job was.

Mr. SIMON. Did you know that he was twice called before this committee, both times he identified himself as the former Assistant Commissioner in charge of rental housing, and when asked whether builders had paid him money he said "I refuse to answer on the ground that my answer might tend to incriminate me"?

Mr. WRIGHT. I knew that Clyde Powell was called before the committee and made an answer similar to the one you quoted.

The CHAIRMAN. Do you know that the records show, and we placed in this record, that prior to coming with FHA that he had been arrested 6 or 8 times?

Mr. WRIGHT. I knew that such a statement had been made, Senator. I have heard—

The CHAIRMAN. Did you know we were investigating FHA's operations and FHA's officials, we are investigating the weaknesses and strength of the law, as well as builders?

Mr. WRIGHT. I do. I know that.

The CHAIRMAN. Did you know this is the same committee that wrote the law?

Mr. WRIGHT. I know that you were on the committee. I don't know whether the other members were.

The CHAIRMAN. The great virtues and the great team you talk about in here was created by this committee. Senator Maybank, who died last night, was a member of this committee, and I was a member 10 years. That made possible all of the virtues you have been talking about, if there were virtues.

Mr. WRIGHT. Don't you agree with me there were virtues?

The CHAIRMAN. I think there were many, but I think there were a lot of ills. I think you builders have been very, very greedy in many respects. I think you have taken advantage of a lot of situations, and I think this same conversation that we are getting from

you, this same article, is the same sort of testimony that we had time after time on the part of the builders, and others, when they would come before our committee and we would talk about changing the law to do certain things. They assured us that these things had never happened, and could never happen.

Just answer one question: Why are you fighting this investigation rather than cooperating with us and helping us?

Mr. WRIGHT. May I ask a question from you?

The CHAIRMAN. No; answer my question. Why are you, as president of the institute here, fighting this investigation? What do you have to cover up?

Mr. WRIGHT. Senator, we have nothing to cover up.

The CHAIRMAN. Why are you fighting this investigation?

Mr. WRIGHT. I would say we are not fighting your investigation.

The CHAIRMAN. Why do you make the statements you make? Why do you accuse us of doing this for political reasons? What political reason could we have for doing this?

Mr. WRIGHT. Senator, let me answer that. I have got to go back further than this committee to do that. Personally, and this is only personally, I think that this situation was handled very poorly at the onset when—

The CHAIRMAN. By the President of the United States?

Mr. WRIGHT. I don't know who handled it.

The CHAIRMAN. Did you know the President of the United States started the investigation?

Mr. WRIGHT. Well, whether the President started it or not, I think it was handled very poorly. It may be I am criticizing the President of the United States, if that be the case.

The CHAIRMAN. You have a right as an American citizen to criticize him if you care to.

Mr. WRIGHT. I have. I do not think—in other words, as I see the situation, this law was made during the Democratic administration prior to the Republican administration. When this was started Mr. Hollyday was fired as FHA Commissioner. In my estimation, that never should have been done.

The CHAIRMAN. I see.

Mr. WRIGHT. I think Mr. Hollyday was doing a good job there. I do believe that, in doing that, the Republicans have switched this thing, and instead of blaming it on the Democrats, where it should be, in my opinion, I think the Republicans are assuming the blame for all this. I do not believe that the Republican Party or you or anybody in the Republican Party are to blame for this.

The CHAIRMAN. Have you heard of any action on the part of this committee since we have been here that we were dealing one bit in politics? The gentleman sitting on my left here has been with FHA for 20 years. He is a Democrat. He started with them back in 1934, and he is our chief advisor here on the law, because he knows the workings of it.

I am fearful there is something behind what you had to say rather than something behind what we are trying to do.

Mr. WRIGHT. Senator, there is nothing behind it. In other words, I assure you that we of the Home Builders Institute, if you will conduct the investigation the way you did yesterday and the way I have

seen it when I have been here today, that we will cooperate with you 100 percent. You brought out some things that we did not know existed in our area, and we will cooperate with you on those.

Mr. SIMON. Wouldn't it have been a good idea not to issue the statement until you had heard the evidence?

Mr. WRIGHT. Mr. Simon, I think possibly your statement is correct. We have not issued statements heretofore. I issued a statement yesterday. Possibly it would have been better to have withheld that statement until afterwards. However, I did issue the statement.

Mr. SIMON. Did you know that the Housing Act, as originally passed by Congress, provided in section 608, and I would like to read just one sentence:

The mortgage shall involve a principal obligation in an amount not to exceed 90 percent of the amount which the Commissioner estimates will be the necessary current cost of the completed property or project, including the land.

And then in 1947, Congress amended the law to add this sentence:

In estimating necessary current costs for the purposes of said title, the Federal Housing Commissioner shall therefore use every feasible means to assure that such estimates will approximate as closely as possible the actual cost of efficient building operations.

Did you know those provisions were in the law?

Mr. WRIGHT. Let me ask a qualifying question and then I will answer your question directly.

It is my understanding that included in those costs are, No. 1, a 5 percent architect's fee.

The CHAIRMAN. Nothing in the law that says that, although I will grant you FHA had a practice of doing it.

Mr. WRIGHT. Also a 5 percent builders' fee. Are those two—am I correct in those?

The CHAIRMAN. There is nothing in the law that allows them. We are investigating FHA and the operation of FHA, and, frankly, all of its officials, and its good points and its weak points, and the man that ran this rental department, Mr. Powell, for 20 years, refuses to testify. He worked for the Government. He worked for the taxpayers. He had a big job, and he comes before this committee and he says "I hide behind the fifth amendment." He was the fellow that O. K.'d these deals, the man sitting up there with the authority to say "yes" or "no," and he refuses to testify.

Now, you knew that, didn't you?

Mr. WRIGHT. I knew that.

The CHAIRMAN. Did that mean anything to you?

Mr. WRIGHT. Yes, it does. I certainly go along with you, that you should investigate a man that refuses to testify.

The CHAIRMAN. Didn't you know that he was the top man that handled all the section 608 projects, where all the mortgaging out has occurred? You knew we have the records and testimony of New York City, last week, of one man that made \$5 million above the cost? You also know the law says 90 percent, not 100 percent.

Mr. WRIGHT. That is right.

The CHAIRMAN. Ninety is not a hundred.

Mr. SIMON (reading):

Ninety percent of an amount which is to be as close as possible to the actual costs of efficient building operations.

If they had followed that, Mr. Wright, it wouldn't have been possible to have any of these windfalls, would it?

Mr. WRIGHT. Your name is Simon, isn't it?

Mr. SIMON. Yes.

Mr. WRIGHT. I think you have got to have a good many interpretations. In other words, what is efficient building practices, and what is customary in the business? In other words, in the business it is customary to have an architect's fee and customary to have a builder's profit in a deal. If we didn't have those things we wouldn't have private industry.

Mr. SIMON. Except we have had literally hundreds of cases, Mr. Wright, where the application said the architect's fee was 5 percent, and when we subpoenaed them in we found the architect's fee was 1 percent, or three-quarters of a percent.

The CHAIRMAN. Or one-half of 1 percent.

Mr. SIMON. Yet the application said 5 percent. Now, there is no doubt if they paid an architect 2 percent or 5 percent, that is cost, but if you paid the architect 1 percent, 5 percent isn't the cost.

Mr. WRIGHT. I see your point, but I would say this: That the way we generally conduct business, if there was a 5 percent fee allowed I would say the average builder would figure a 5 percent fee whether he paid 5 percent or whether he paid a lesser amount.

The CHAIRMAN. It never said 5 percent. It said up to 5 percent, and the intention was that they were to get credit for what they actually spent, whether it be 1 percent, 2 percent, 3 percent, 4 percent, or 5 percent, and they weren't to get credit for 5 percent if they didn't spend it.

Haven't you got any conscience at all for the tens and tens of thousands of renters in the United States that are paying higher rents than they ought to be paying and would be paying had these costs of mortgages been on the basis of 90 percent of the cost? Why don't you make a statement in respect to those people?

Mr. WRIGHT. Mr. Senator Capehart, I will make a statement with respect to those people. I would say this: That as bad as this has been administered, and you have brought out some cases, and I think those cases are in a small majority. I understand in our area there are some 750 section 608 projects, of which—

The CHAIRMAN. What did you say?

Mr. WRIGHT. Some 750.

The CHAIRMAN. Where?

Mr. WRIGHT. In the Los Angeles area.

The CHAIRMAN. There are about 7,000; aren't there?

Mr. KENNEY. 7,000.

The CHAIRMAN. 7,000 in the United States. We may have only scratched the surface.

Mr. WRIGHT. In our area on your blacklist you only named five.

Mr. SIMON. We have no blacklist.

The CHAIRMAN. The blacklist was issued by the administrative end of the Government, by the President of the United States.

Mr. WRIGHT. There was a list put out termed as the blacklist, that only listed that number out of 750 which I think is a small percentage.

Mr. SIMON. That was put out by FHA, not not by us, and it was 5 companies which account for a great many projects, more than 5 projects.

The CHAIRMAN. If there was only one, it is too many.

Mr. WRIGHT. I agree with you.

The CHAIRMAN. I want to repeat that again. If it is only one, it is too many. The Federal Government is good enough to guarantee the mortgages of the builders and permit them to go out and make a lot of money, and I am delighted to see them do it. They have done in many respects a good job but I am not going to countenance crookedness, and irregularities, and we are not going to do it in Washington. We would like to have you builders here help us clean it up.

Mr. WRIGHT. We will be glad to do that.

The CHAIRMAN. It is your dirt, not ours. You created it. We didn't. We are trying to clean this whole situation up. We are not accusing anybody. There has never been a more fair investigation than this one. We haven't played politics at all. We even brought in a builder from Philadelphia, who was—I am a Republican—who was a Republican candidate for Congress, running on the ticket. We sat him down like you are in public. We haven't played politics with this thing at all.

Mr. WRIGHT. That is fine, Senator. I certainly commend you.

The CHAIRMAN. We come out here and try to do an honest job and you, the head of the Builders, issue a statement in which you blast us. What you should have done is come around to the hotel and say "How do you do, anything we can do for you?"

Mr. WRIGHT. I don't know whether you remember, but I met you in Washington in May when you attended our board of directors' meeting there.

The CHAIRMAN. Yes; I was delighted to attend your board of directors' meeting.

Mr. WRIGHT. We were delighted to have you.

The CHAIRMAN. We are simply saying this whole business is getting out of hand. I want to say to you that nobody can say—nobody is better qualified to say the things I am saying than I am because I am a private enterpriser. If there is only one of us left in the United States when this thing is all left, I will be him.

I can say what I am saying. I want to say to you builders you had better stand on your own bottom and quit asking for shorter downpayments and longer terms, and get back into the private enterprise system instead of asking the Government to guarantee all your credits and take on all the responsibility and you take all the profits.

Mr. WRIGHT. No. 1, when you say we take all the profits, we have got to have profits in private enterprise to keep private enterprise.

The CHAIRMAN. Of course you do.

Mr. WRIGHT. No. 2, if you will remember a year ago—

The CHAIRMAN. I don't want to interrupt you, but under this rental business, these sections 608's, there can be no profit because the man continues to own the buildings and the apartments, and they were built for the purpose of making money off of the rentals, not making money off of the guaranteed mortgages by the Federal Government. The cheaper or lower price that a man could build one, the less the mortgage would be, the less he would owe and the less the rents ought to have been.

Mr. WRIGHT. Let me answer this, Senator. Those projects in this area, so far as I know, the Government only took over 1 or possibly 2 projects. Those projects were sold at a profit to the Govern-

ment. The cost of building at that time was very much less than it is now. I would say possibly 20 percent less than it is now.

Mr. SIMON. Mr. Wright, do you know the law provides that the rents in these section 608 projects are controlled by the Commissioner, and the higher the mortgage the higher the rent?

Mr. WRIGHT. That is right.

Mr. SIMON. So even though a lot of these projects haven't gone into default that is only because the Commissioner, on inflated mortgages, was required to fix inflated rents, which are carrying the projects?

Mr. WRIGHT. Well, Mr. Simon, if you were to build those same projects today you would pay more money for them than they would be without any inflation that you have—

Mr. SIMON. You are saying building costs have gone up and bailed out some inefficient operations that wouldn't have stayed above water if they hadn't been taken out by inflation.

Mr. WRIGHT. But that is a fact, and those rents today are less than we can go out and reproduce the same project to rent, and as bad as these things were—and there were only a few of them that were bad—it is very much less than it would be under a public housing. In other words, our public-housing deal costs very much more. In other words, there was initial cost and there was an upkeep cost to the taxpayers throughout the whole thing, and this was the only thing to combat public housing.

I am sure Senator Capehart was for this legislation because it did do the job, and I can realize Senator Capehart's position.

Mr. SIMON. Let me ask you just one more question: If the Federal Housing Commissioner had followed the law that Congress passed, and had only given mortgages up to not more than 90 percent of the actual costs—and note that Congress put the word "actual" before costs, which I take it meant to exclude the case you referred to earlier, where they usually paid a 5 percent architect's fee, but here they only paid one because they said "actual costs of building operations"—if the Commissioner had honestly followed that law, do you think it would have been possible to have these cases where instead of the mortgage being 90 percent of cost, the mortgage was 110 and 120 percent of cost?

Mr. WRIGHT. May I answer that in two ways: Will you give me an opportunity to do that?

Mr. SIMON. Yes.

Mr. WRIGHT. Answering your question direct, no, I do not believe it would have been possible to get the 110 percent of cost. However, had that been taken by the builders of the Nation as being 90 percent of the actual cost, in other words, every builder knew they had the best possible basis he could have come out on that deal would have been with a 10-percent amount in there, and possibly he would have 50 percent, because of many other deals in this area, and other areas in the country where the dealer had to put up hundreds of thousands of dollars, because he was not sufficiently fortunate to get an appraisal at the top of the market and build a building at the bottom, which some of the fortunate boys did—

The CHAIRMAN. Favoritism: That is one of the things we are checking to find out of favoritism is used.

Mr. WRIGHT. I am speaking of a case that would not be favoritism. In other words, we had areas where our building costs were higher. Within 6 months' time the building costs had dropped down 20 per cent. Some of those deals were honestly——

The CHAIRMAN. Would you agree with me in every instance where the man found his total costs were less than the mortgage that what he ought to have done was to have applied that amount on the mortgage?

Mr. WRIGHT. I agree with that.

The CHAIRMAN. Thank you very much.

Mr. WRIGHT. Senator, may I finish answering this one question of Mr. Simon's?

The CHAIRMAN. Yes.

Mr. WRIGHT. I do not believe that the section 608 act would accomplish the purpose, that buildings would have been built under the section 608 act had there not been the chance for the opportunity, if everything was right, to receive an additional amount, which——

The CHAIRMAN. That is an awful thing to say against the building industry in America.

Mr. SIMON. What you are saying is, unless the builders could get a building built out of Government funds, make a profit out of the building, and still own it, section 608 wouldn't have carried out its purpose; is that right?

Mr. WRIGHT. That is right.

The CHAIRMAN. I don't believe it, but you can make the statement if you want to.

Mr. SIMON. That is what you are saying, isn't it?

Mr. WRIGHT. That is my personal opinion. I am not speaking for the industry when I state that. I am giving you my personal opinion, because I do not believe the job would have been done. I think it would have been left for public housing to do had that been the case.

Mr. SIMON. I take it you would agree it is wrong to say that it was the law that encouraged the windfalls, because the law permitted 90 percent of the actual cost, and rather it was the administration of the law which did what you think was necessary to encourage the building, but was not provided for in the statute; is that right?

Mr. WRIGHT. Well, we as builders have got to look at the administration of the law, as well as the law, the same as we are now. This new law that Senator Capehart passed in 1954 Housing Act, the committee, the Congress passed that some weeks ago. We do not know yet how to operate under that, because the Federal Housing Administration has not brought out the rules on all of the different titles on that, stating the rules and regulations which we are to operate under.

The CHAIRMAN. Yes. You will have to learn some new methods under that law.

Mr. WRIGHT. I believe we are, Senator.

The CHAIRMAN. I know you are.

Mr. WRIGHT. We don't know those at this time.

Mr. SIMON. In your statement, Mr. Wright, you said Congress passed the law which did this. Isn't what you mean to say now that the FHA promulgated regulations which did it, but——

Mr. WRIGHT. That would be more correct. That would be a more correct statement.

Mr. SIMON. And that was not permitted by the law that Congress passed?

Mr. WRIGHT. That is correct.

Mr. SIMON. Thank you.

The CHAIRMAN. Thank you, sir.

Our next and last witness will be Mr. H. V. Davidson.

Mr. Davidson.

Will you please be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF H. V. DAVIDSON, DIRECTOR, LONG BEACH, CALIF.,
FEDERAL HOUSING ADMINISTRATION**

Mr. DAVIDSON. I do.

The CHAIRMAN. Thank you, sir.

Will you be seated and give your full name and address?

Mr. DAVIDSON. My name is H. V. Davidson; address, 577 Rose Drive, Whittier.

Mr. SIMON. You are director of the FHA office in Long Beach?

Mr. DAVIDSON. Yes.

Mr. SIMON. How many section 213 applications have been filed in the Long Beach office of FHA?

Mr. DAVIDSON. I do not have the number of applications. You asked me if I would give the number of the cases we processed and of the number of commitments we issued on section 213 and I have that information, but I do not have the number of applications actually processed.

Mr. SIMON. You mean by that somebody might have filed an application that was either withdrawn or denied?

Mr. DAVIDSON. That is right.

Mr. SIMON. You just have the applications that were allowed?

Mr. DAVIDSON. That were processed and went to the commitment stage.

Mr. SIMON. How many were those, Mr. Davidson?

Mr. DAVIDSON. A total of 48 projects, for 6,663 units.

Mr. SIMON. 6,663 units?

Mr. DAVIDSON. That is right.

Mr. SIMON. How many of those projects and how many of those units were the Carson Park and Lakewood projects of Mr. Weingart and Mr. Boyer?

Mr. DAVIDSON. Fifteen of those projects were Lakewood Park Mutual Homes, and 33 were Carson Park Mutual Homes.

Mr. SIMON. So that that totals 48?

Mr. DAVIDSON. That is right.

Mr. SIMON. Then they are the only people who filed applications under this cooperative section?

Mr. DAVIDSON. There is one other small project in Orange County that for some reason isn't on this list. It was for 50 units, in the Santa Ana area.

Mr. SIMON. Except for that project the only people who ever filed applications to use the cooperative section of the law were the Weingart-Boyer group; is that right?

Mr. DAVIDSON. That is right.

Mr. SIMON. They filed 48 projects for 6,663——

Mr. DAVIDSON. No; they filed more projects than these. These were the ones that were actually processed and we issued commitments on.

Mr. SIMON. Now, Mr. Davidson, the cooperative housing section provides for a nonprofit corporation to be formed to utilize the facilities of section 213 of the act; is that right?

Mr. DAVIDSON. Yes, sir.

Mr. SIMON. And then presumably that nonprofit corporation enters into a contract with some builder to build the buildings; is that right?

Mr. DAVIDSON. Theoretically; yes, sir.

Mr. SIMON. Does the FHA care whether every nonprofit corporation in the whole United States picked on the same builder to build their buildings? Assuming, of course, he was financially able to do that amount of business.

Mr. DAVIDSON. I don't think it would make any difference to us.

Mr. SIMON. It would make no difference to you at all?

Mr. DAVIDSON. No, sir. You are talking about construction of the project by the mutual contract?

Mr. SIMON. By the construction company.

Mr. DAVIDSON. By the cooperative for the building of the project?

Mr. SIMON. That is right.

Mr. DAVIDSON. That is right.

Mr. SIMON. No impediment to the same construction company building all these 6,663 units in the Carson Park and Lakewood projects?

Mr. DAVIDSON. I think it would make no difference as far as we are concerned.

Mr. SIMON. Can anyone say truthfully that FHA ever insisted on a separate building company for each of these projects?

Mr. DAVIDSON. I think not. That is not my understanding of the operation, as we know it.

Mr. SIMON. You have been in the FHA here in Los Angeles for how long?

Mr. DAVIDSON. I have been with FHA for almost 20 years.

Mr. SIMON. And all of that time in California?

Mr. DAVIDSON. Yes, sir.

Mr. SIMON. If FHA had insisted on a separate building company for each of these projects you probably would have known about it, wouldn't you?

Mr. DAVIDSON. I think so.

Mr. SIMON. Thank you, sir.

The CHAIRMAN. Are there any questions?

Mr. KENNEY. No.

The CHAIRMAN. Thank you very much.

We will now stand in recess until 10 o'clock tomorrow morning, and I have handed to the press, and if anybody else is interested they may come up and get the list of witnesses for tomorrow.

There is one name that isn't on this list. That is Mr. Adams, one of our important witnesses, and he was inadvertently left off. He is from the State contractors' license bureau.

I might say this: I am leaving tonight for Charleston, S. C., as I said this morning, to attend the funeral of Senator Maybank, and Senator Wallace Bennett, of Utah, will preside tomorrow and Friday. We will end our hearings here on Friday.

We now stand in recess until 10 o'clock tomorrow morning.

(Whereupon, at 4:07 p. m., the committee recessed until Thursday, September 2, 1954, at 10 a. m.)

FHA INVESTIGATION

THURSDAY, SEPTEMBER 2, 1954

UNITED STATES SENATE,
BANKING AND CURRENCY COMMITTEE,
Los Angeles, Calif.

(The committee met, pursuant to recess, at 10 a. m., Senator Wallace Bennett presiding.)

Present: Senator Bennett.

Also present: Senator Thomas H. Kuchel.

Also present: William Simon, general counsel, and T. T. Kenney, assistant general counsel, FHA investigation.

Senator KUCHEL. The meeting will come to order.

I have been requested by Senator Capehart, who is proceeding to the funeral of the late Senator Burnet R. Maybank of, South Carolina, to preside until Senator Wallace Bennett, of Utah, who is a member of this committee, arrives here by train. His train is late, and in the interest of time and the rather extensive list of witnesses which we have called for today, the meeting will now proceed.

The first witness to be called is the United States attorney for the Southern District of California, the Honorable Laughlin Waters.

Mr. Waters, would you come forward?

Will you be sworn.

Do you solemnly swear the testimony you are about to give in these proceedings shall be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF LAUGHLIN WATERS, UNITED STATES ATTORNEY FOR THE SOUTHERN DISTRICT OF CALIFORNIA

Mr. WATERS. I do.

Senator KUCHEL. Your name is Laughlin Waters, and you are the United States attorney for the Southern District of California?

Mr. WATERS. That is correct, Senator.

Senator KUCHEL. And have been since what date?

Mr. WATERS. July 31, 1953.

Senator KUCHEL. All right, Mr. Counsel, will you proceed.

Mr. SIMON. Mr. Waters, would you tell the committee the experience that your office has had with title I home loan repairs?

Mr. WATERS. Mr. Senator, and Mr. Simon, as of the date that I took office I found that title I home loan repair matters pending in the office had been in a status quo for quite some period of time.

Mr. SIMON. What do you mean by "status quo?"

Mr. WATERS. I mean by that that matters had been referred to the office, and notwithstanding the fact that the Government had a valid

demand against the borrower in those cases, nevertheless in many cases those claims by the Government had not been promptly and effectively prosecuted.

Mr. SIMON. Those are claims of the Government against a homeowner where the loan had defaulted and the Government was required to reimburse the bank or lending agency?

Mr. WATERS. That is correct.

In those cases I found, for instance, upon a rather comprehensive review, that some notes that had been applied for originally as far back as 1935 and 1936 were still pending in the office and had not either been collected or reduced to judgment.

The result has been, of course, that violations that have been indulged in by people who did borrow under the terms of title I were in a position to continue and make further loans from the Government, and in many cases we found that the violation was not limited to a single instance, but that numerous opportunities had been presented and individuals would have 6, 7, 8, 9, and in one instance 13 separate notes outstanding. They were stretched beyond any possibility of repayment on their part, and there apparently was no effective check.

Mr. SIMON. Do you mean, Mr. Waters, that people who had borrowed money on one of these home loans under FHA and hadn't paid and gone into default were able to get a second loan after the first one was in default?

Mr. WATERS. Let me give you a case here that originated in 1949. The first loan in the amount of \$574.90 was for a garage. Thereafter—that was in October. In November, another loan was entered into for insulation. Thereafter, one for a fence. Thereafter, in 1950, a water softener. Thereafter, for an item identified as Kenetex; thereafter, another loan for a patio barbeque. This is in September 1950; another for a tile bath and thereafter a final loan for another tile deal at the home.

Mr. SIMON. Do you have the name and address of that homeowner?

Mr. WATERS. Yes. The name of the debtor is E. Richardson. I do not have the address available in this report.

Mr. SIMON. Is that in Los Angeles?

Mr. WATERS. Yes. All of these loans were made with local banking institutions, and they were all handled through local contractors, the insulation companies, water softeners, and so forth.

Mr. SIMON. Do your records show when the first loans went into default?

Mr. WATERS. This record does not show here. All I have is the initial application.

In many cases where there were multiple loans, some of the debtors themselves would go from one bank to another bank and fail to reveal the fact that they had other outstanding loans.

Mr. SIMON. Were there cases where more than one loan was made at the same bank?

Mr. WATERS. Offhand, Mr. Simon, I could not say without a detailed research of this.

Mr. SIMON. Mr. Waters, is there any relationship between the large number of delinquent claims and the claims of debtors that they were defrauded in the sale of these home improvements?

Mr. WATERS. We are receiving a substantial number of complaints from these individuals from whom we are now trying to collect these loans on the basis that they were either defrauded or that the work was not done, or that it was done improperly, or that the amount charged was excessive and as a result, for any one of these reasons, they feel that they are not morally or even legally obligated to pay these loans and, therefore, they have defaulted.

Mr. SIMON. Mr. Waters, we will have some witnesses later in the day who will testify to frauds practiced upon them in the home improvement program under which they signed notes for the alleged amount of the home repair project. Is what happens that the builder or contractor who sold the job to the homeowner goes to the bank and gets his money from the bank by merely presenting the note and then when the homeowner learns he was defrauded and doesn't pay the note, the bank turns the note over to the United States Government and gets its money from the Government and that you, as United States attorney, then have to sue that homeowner in the name of the Government to collect the amount of the note that he believes he was defrauded on?

Mr. WATERS. That is the pattern that has been followed in the great majority of these cases.

The thing that has made it particularly difficult for my office to achieve results in a number of cases is the fact that once the bank finds that they have a defaulting debtor, they then receive their payment from the Government. Then an effort is made both here and in Washington through FHA to achieve collection of that note, and 3, 4, or 5 years after the initial default the matter is ultimately referred to my office for collection.

The end result is, of course, that by that time the party has moved. He is no longer available. He is broke. He has died. Any one of a number of things can happen. We find a number of these cannot be reduced to judgment for that reason.

Mr. SIMON. I take it in these cases the contractor who fraudulently sold the project is no longer in business, and it is a question of the Government or the homeowner taking a loss, is that right?

Mr. WATERS. Just exactly that.

Senator KUCHEL. Mr. Waters, can you estimate for the record the amount in dollars of the claims which have been referred to you by FHA for collection in this area?

Mr. WATERS. I have not computed the total amount, Senator, I notice the notes run as high as \$3,400 and as low as a hundred some-odd dollars. The average would appear to be in the neighborhood of \$500. We have presently outstanding in the office about 1,700 notes, and we have reduced about 400 of them to judgment, upon which we are either getting some return or we have a lien on the property so that in the event an effort is made to transfer that property the Government's position and interest will be protected.

Senator KUCHEL. And can you indicate the dates which appear on the notes? That is to say, the earliest time that these notes were entered into from your own files to the latest, in point of time?

Mr. WATERS. The earliest I have in this particular compilation here ranges back to 1936 or 1935. I believe I have one in 1935. We do have currently a number that were entered into, on cases received

in June of 1954. Notes were entered into in 1951, 1952, 1948, 1949, 1947. Apparently the earliest would appear to be 1953, two instances of 1953.

Senator KUCHEL. Can you indicate the date on which, let us say, the note, dated 1936, was turned over to the United States attorney for collection?

Mr. WATERS. I do not have that information here, Senator.

Senator KUCHEL. Of course, a 1936 note, I suppose other things being equal, outlaws in 4 years in California. Isn't that the fact?

Mr. WATERS. We are still in a position to collect on those.

Senator KUCHEL. Why is that?

Mr. WATERS. If the debtor is solvent.

Senator KUCHEL. No question of the limitation against the note?

Mr. WATERS. No. I understand we are in position to move on those in an effort to reduce it to judgment. That is a Federal obligation.

Senator KUCHEL. Against which the statute of limitations in California does not run?

Mr. WATERS. That is my understanding, Senator.

Senator KUCHEL. I have no further questions.

Mr. SIMON. Thank you, sir.

Senator KUCHEL. Will Mr. Russell Adams of the California State Licensing Board, and Mr. Harold Koontz, also of that agency, please come forward?

Thank you very much, Mr. Waters.

Will you gentlemen both raise your right hands?

Do you solemnly swear the testimony you are about to give in these proceedings will be the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF RUSSELL ADAMS, SUPERVISOR-INVESTIGATOR,
AND HAROLD H. KOONTZ, INVESTIGATOR, CALIFORNIA STATE
CONTRACTOR'S LICENSE BOARD**

Mr. ADAMS. I do.

Mr. KOONTZ. I do.

Senator KUCHEL. Will each of you gentlemen identify yourselves for the record?

Mr. KOONTZ. I am Harold Koontz, supervisor-investigator for the State contractor's license board; office address, 145 South Spring Street, Los Angeles.

Mr. ADAMS. My name is E. R. Adams. I am an investigator for the same agency.

Mr. SIMON. Mr. Koontz, have you had occasion in the last few years to devote a considerable portion of your activities to the complaints of homeowners in the title I home-repair program?

Mr. KOONTZ. Yes, I have.

Mr. SIMON. What action does your agency take, or what part do you have in policing this industry?

Mr. KOONTZ. The State law requires that a contractor be licensed. In order to hold that license there are certain disciplinary sections in our law where we can take action against this license. My investigation was to resolve the matter, to bring action against the licenses of these title I dealers.

Mr. SIMON. Has it been necessary for your agency of the State of California to take action against licensed dealers, dealers licensed by FHA, who were participating in frauds on California homeowners because FHA had failed to discipline them?

Mr. KOONTZ. Well, we found violations of our law and we took actions and we revoked licenses.

Mr. SIMON. Were the violations that you referred to matters amounting to fraud?

Mr. KOONTZ. Yes. We charged fraud and proved it.

Mr. SIMON. Mr. Koontz, Mr. Adams is one of your investigators, is he?

Mr. KOONTZ. Yes, he is.

Mr. SIMON. He actually goes out in the field and talks to the homeowners and checks on these charges, does he?

Mr. KOONTZ. Yes. He has talked to many of them, and I have talked to many of them myself in their homes.

Mr. SIMON. Mr. Adams, could you tell the committee whether there has been any use of the model-home pitch in California?

Mr. ADAMS. As a result of the investigations that we made, we found that from about mid 1948 up to the latter part of 1953 representations by the contractors were in the use of any given property under contract for a definite improvement would be used by the contracting company in forthcoming sales campaigns, the result of which would return bonuses, or payments, or commissions to the owner and in most cases representations that it would completely defray the expenses of the particular contract and even return a profit were demanded upon by those owners and were largely the reasons for the consummation of the contract.

Mr. SIMON. To make sure I understand you, Mr. Adams, is what you are saying that the salesman for this contractor would go to the homeowner and tell him that "We want to paint your house or put a barbeque pit in your backyard, and we have selected your house as a model house for this community. We want to bring other people in and show them what our work is like, and we will pay you a commission on every sale we make off your house and that will not only pay for your entire improvement but might even make some additional money for you?"

Mr. ADAMS. That was largely the representation used.

Mr. SIMON. How extensive was that in this area, Mr. Adams?

Mr. ADAMS. In actual numbers of cases I have no definite knowledge, Mr. Simon, beyond the fact that the contractors' State license board processed hundreds of such complaints, and we had the testimony at one time that there were approximately 600 such contracts in the southeastern part of Los Angeles County in the Downey-Norwalk area, and computing from that, that that and the Lakewood Village area, as a sample, would indicate thousands of such transactions in southern California.

Mr. SIMON. Mr. Adams, what were the types of repairs in which that pitch was most frequently used?

Mr. ADAMS. I think the most prevalent one, the one that came to our attention first, was that of siding, asbestos type shingles, or sheats applied as siding to an existing house which in many instances was badly in need of paint or alterations or repair of some kind, and that was followed by patio and barbeque installations, by painting,

both oil-base paint and heavy mastic spray paintings. Then there were numerous types of patio enclosures, additions of a wing or an enclosure of a U-shaped part of a house, and then straight remodeling itself.

Mr. SIMON. Mr. Adams, going back to the siding and the mastic paint spraying of houses, did you undertake any inquiry with respect to the prices at which those jobs were sold to homeowners, and the costs of the contractors for doing the work?

Mr. ADAMS. Yes, we did, sir.

Mr. SIMON. I take it in many of the cases the so-called contractor would sublet the job to somebody else to do?

Mr. ADAMS. In many instances, if not the majority of the instances, the actual contractor himself sublet or subcontracted most of the mechanical operations.

Mr. SIMON. So that the contractor's function was primarily promotional or sales?

Mr. ADAMS. In my opinion, largely.

Mr. SIMON. Can you tell us what you found with respect to their costs and what they charged these homeowners?

Mr. ADAMS. An ordinary residence structure of approximately 1,000 square feet of living space—

Mr. SIMON. Is that—

Mr. ADAMS. One story in height.

Mr. SIMON. Is that an average home in this community?

Mr. ADAMS. Perhaps slightly larger.

Mr. SIMON. Slightly larger than the average home?

Mr. ADAMS. Yes. A thousand-foot house is usually considered a two-bedroom house, modest size. The ordinary price charged for a siding operation, or a spray painting operation, in my own compilation, was \$690 to \$790.

Mr. SIMON. That is the price that these homeowners paid?

Mr. ADAMS. That is the price charged.

Mr. SIMON. By these FHA-improvement dealers to the homeowners?

Mr. ADAMS. Yes. Ordinarily prices being no concern of the contractors license board, it became part of our investigation to determine if there was a fraudulent representation as to the value, or the cost of the labor and materials, because most of those were sold on the premise, and it was depended upon by the owners, that the \$790 covered only the cost of the labor and materials, with no profit and no commission to the company.

Mr. SIMON. You mean by that when they gave them this model home pitch they said, "Because your house is going to be a model house for our salespeople we are just going to charge you our cost and we won't have any profit." Is that part of the pitch?

Mr. ADAMS. That is right. They pledged, almost every one of those owners, to complete secrecy as to the price because as the salesman stated, they didn't want others to know that this was a model home and receiving a preferential price.

To get back to the second part of your question, sir, we did ask many local dealers, responsible local contractors, to investigate the cost of doing those houses, with the normal profit and the normal markup, and we found that the average house could be done for approximately \$340, and return a reasonable profit to the contractor, as well as a commission to the salesman.

Mr. SIMON. That is \$340 for doing a comparable job, with a profit, and these operators would sell the job at an average of \$790 and tell the homeowner there was no profit in the picture; is that right?

Mr. ADAMS. \$690 to \$790 was the prevailing average under which those so-called improvements were sold.

Mr. SIMON. Mr. Adams, do you have any experience with respect to whether the homeowners were asked to sign a completion certificate at the time the application was signed?

Mr. ADAMS. We had numerous instances when it became a matter of proof that the completion certificate, and the promissory note, were signed in blank at the time of the transaction. In the majority of cases, however, it revealed that the completion certificate itself was signed by the presentation of that certificate by the mechanics at the completion of the job, on a representation by the mechanics that its only function was to secure the wages of the mechanics who installed or performed the work.

Mr. SIMON. Do you mean by that the workman would tell the homeowner, "You have got to sign this paper before I can get my pay," and "that the only effect of your signing this paper is to permit me to get paid for the work I have just done"?

Mr. ADAMS. That is true, sir.

Mr. SIMON. Do you know whether these homeowners understood that by signing the completion certificate they certified that the work had been actually done, and properly done, and thereby enabled the contractor to discount the loan at an FHA licensed bank?

Mr. ADAMS. In most cases, sir, we found that that was a revelation coming to the owner considerably later than the time the representations depended upon at the signing of the certificate.

Mr. SIMON. You mean they didn't learn of the fact until after the bank had purchased the note?

Mr. ADAMS. The majority of cases revealed exactly that.

Mr. SIMON. What were the companies with which you had the most trouble, Mr. Adams?

Mr. ADAMS. I could relate the names only of those with which I had definite dealings.

Mr. KOONTZ, however, has more of a comprehensive list of all.

Mr. SIMON. Could we stop for a minute?

Mr. KOONTZ, could you give us the list of those? I take it because Mr. Adams is just one of your investigators your experience would be more comprehensive than his?

Mr. KOONTZ. That is correct; yes. I have a list here of the companies which we filed actions on.

Would you like to have the names of those companies?

Mr. SIMON. Yes, sir; if you would, sir.

Mr. KOONTZ. California Home Remodeling, Inc.

Would you like for me to read the date of our action and the result of it?

Mr. SIMON. Yes, sir.

Mr. KOONTZ. Effective date of the license revocation was February 11, 1953. That was a result of a hearing.

The Applicators of California, Cooperative Applicators of California, Melvin Ross Jackson. Each was a licensee, one action against them, license revoked on April 11, 1953.

Enterprise Construction Co., Colonial Construction Co., Robert G. Handel, 3 separate licenses, 1 action; license revoked on July 29, 1953.

Durastone Co., license revoked October 3, 1953.

Federal Insulation Co., Inc., and Al Bramer, license revoked September 1, 1953.

Merlin Construction Co., Inc., license revoked September 1, 1953.

The Enterprise Construction Co. of Los Angeles and the Community Development Co. of America, one action, license revoked September 1, 1953.

Herbert Carr Brennan, Brennan Wood & Associates, Herbert Brennan & Associates, license revoked August 30, 1953.

Angelus Builders, Gordon M. Beller, and Los Angeles Income Builders, three licenses revoked on December 1, 1953.

Atlas Home Improvement Co. and Jack Perlman, license revoked November 7, 1953.

Cardiff Corp. and Abbott Construction Co., license revoked December 21, 1953.

Harvey Martin, Inc., doing business as Perma-Tite, license revoked September 1, 1953.

Eugene F. Girard, doing business as Stonecrafters, Inc., Stonecrafters of Oakland, Stonecrafters of San Diego, license revoked on October 28, 1953.

Stewart & Associates, Orbit Construction Co., Harold E. Lowe, Lester D. Olmsted, P. A. Duvall, and Donald W. Urdahl, license revoked December 9, 1953.

The last two, Duvall and Urdahl received a suspension, 1 of 11 months and 1 of 6 months.

The Adex Construction Co., license revoked December 1, 1953.

The Drexel Construction Co., license revoked January 6, 1954.

Bernard Faye and Kardel Builders, Inc., license revoked December 9, 1953.

A. R. Leon, Inc., and ARL Gunitite Co., license revoked December 21, 1953.

Louver Construction, Inc., license revoked December 1, 1954.

R. & C. Coating, Inc., license revoked March 20, 1954.

Los Angeles Mastic & Painting Co., Coden Construction Co., license revoked March 20, 1954.

Ross Home Improvement Co., license revoked February 16, 1954.

Artistic Swimming Pool Co., license revoked March 21, 1954.

Allcraft Construction Co., license revoked February 26, 1954.

Nu Mastic Co., license revoked February 25, 1954.

The Diamond Construction Co., and Jack Gayer, license revoked—all I have here is February of this year.

Prior to this action there were two others, Superior Construction Co., license revoked January 19, 1953, and the Masonall Co., license revoked September 11, 1951. That is a record of our actions.

Mr. SIMON. Mr. Adams, what company did you find was the largest operator in this field?

Mr. ADAMS. That, too, could better be answered by Mr. Koontz.

Of my own knowledge, I would be limited to those in which I operated.

Mr. SIMON. What was your experience as to the largest operator?

Mr. ADAMS. The largest operator, in my own experience, was Enterprise Construction Co.

Mr. SIMON. Is that your experience, also?

Mr. KOONTZ. Yes.

Mr. SIMON. Enterprise Construction was the largest operator in this field?

Mr. KOONTZ. Yes.

Mr. SIMON. Mr. Adams, were they in any respect the granddaddy of the people operating in this field?

Mr. ADAMS. To my own personal knowledge, the Enterprise Construction Co., and possibly the Cardiff Corp., were the earliest users on a large scale of the things which came under our investigation.

Mr. SIMON. What do you understand to be the meaning of the term "suede-shoe boys"?

Mr. ADAMS. That term became very extensively used in our investigation and referred almost exclusively to the class of salesman and job expeditors and crew managers, and solicitors of the contracting firms using the model-home selling method.

Mr. SIMON. Have you also run across the phrase "dynamiters"?

Mr. ADAMS. Not I, personally.

Mr. SIMON. Have you any knowledge or information as to whether the suede-shoe boys operating in most of these home-improvement programs we are talking about were alumni of Enterprise?

Mr. ADAMS. I found many of them had been ex-Enterprise or Cardiff employees who had broken away and set up organizations of their own.

Mr. SIMON. Was Enterprise more or less the training ground for them and after they got the experience they would leave and go into business for themselves?

Mr. ADAMS. I concluded that from my own investigation.

Mr. SIMON. At any rate, you do know that a large number of the people who subsequently entered the area, and by area I mean this business practice, had formerly worked for Enterprise?

Mr. ADAMS. That was a part of my definite knowledge gained in the investigation.

Mr. SIMON. Mr. Adams, will you tell us your experience with respect to kickbacks to homeowners by these suede-shoe boys?

Mr. ADAMS. The earliest type of kickback involved the fictitious downpayment, a 10-percent downpayment was originally required under—

Senator KUCHEL. The junior Senator from Utah, the Honorable Wallace Bennett, a member of the committee, has arrived and I relinquish very gladly my responsibility.

Senator BENNETT. I appreciate your help.

Mr. SIMON. Mr. Adams, when Senator Bennett came in you were explaining how these suede-shoe boys gave kickbacks to homeowners.

Mr. ADAMS. I started with what I found out to be the first part that could be so construed, and that was the placing of fictitious downpayments of the 10 percent required under FHA at that time. There were practically none of the actual 10-percent downpayments made, but they were fictitiously credited on the contract and that amount actually added to the contract. Then—

Mr. SIMON. In other words, the homeowner had to pay back an amount that theoretically represented a downpayment he never made?

Mr. ADAMS. That is exactly right. And the later type of kickback amounted to a construction contract, so-called, which included items

and amounts which were not in the actual improvements, and cash from as low as \$100 to as high as \$500 was given the owner to use for whatever purpose he wished, either to retire a prior second mortgage, or to be used in the purchase of equipment or furniture for an office, or a home.

Mr. SIMON. Did that come about directly by the homeowner resisting the sales effort by saying he already had some other debts, or if he had some money he would rather use it to buy this, that, or the other thing, and the salesman saying, "Well, we will increase the amount of your contract by X dollars and then give you that number of dollars in cash"?

Mr. ADAMS. That was an opportunity afforded those men, Mr. Simon. In my opinion, they were opportunists, when such a statement was made they had a ready answer for it.

Mr. SIMON. Their ready answer was to advance the cash and increase the loan by that amount?

Mr. ADAMS. That is right.

Mr. SIMON. Then, of course, while no home improvement had been made with respect to that amount of money, they completed it as a home improvement under the FHA, and the Government guaranteed the obligation?

Mr. ADAMS. As to the latter part of your question, I think that is beyond my knowledge, but at least up to the point where the money was delivered for the purpose, we know that.

Mr. SIMON. You know that was part of the FHA loan that was made?

Mr. ADAMS. As our investigation revealed, it was.

Mr. SIMON. I can assure you the FHA loans unfortunately are guaranteed by the Government.

Senator BENNETT. Don't say "unfortunately" in all cases.

Mr. SIMON. Mr. Adams, could these suede-shoe boys have operated as they did without either the help or a closing of the eyes by the banks that accepted the paper?

Mr. ADAMS. Well, Mr. Simon, in my own opinion there were 4 essential elements involved, 1 of which included the discounting of those notes, and I speak strictly as an individual, sir, that my conclusion is that after a certain time in the development of this matter that there very likely was a turning of the back to known violations with respect to model home selling, at least.

Mr. SIMON. Do you think the banks either knew or just turned their backs and let it go on when they took this paper?

Mr. ADAMS. It is an observation and a conclusion of mine, sir, that the number of times that specific instances were called to the attention of bank officials discounting that paper would have constituted adequate warning and knowledge to them that this practice was prevalent.

Mr. SIMON. Did you personally try to get cooperation from banks in cleaning up these practices?

Mr. ADAMS. Indirectly, I did, sir.

Mr. SIMON. To what extent, Mr. Adams?

Mr. ADAMS. To the extent that when it became apparent by the scope of my investigation that our legal procedure would be a long, involved one, to gather lots of evidence, presented in a hearing, giving all of the time lost that would be necessary to go through an extended

judicial procedure, that if it were possible for the banks to cut these people off early that the financing would be the key to an early cessation of the activities complained about, and to the extent that I, and many other men on the staff were in and out of the banks, and the other discounting institutions, which were not all limited to the banks, that it was felt that adequate knowledge could be gained cumulatively by the bank officials to know these practices.

Mr. SIMON. Did you get any cooperation from the banks?

Mr. ADAMS. In one instance I had an excellent piece of cooperation, and in most of the other instances, the typical answer from the bank official with whom I would speak was, first, a reaction of surprise that such a thing was taking place, and, second, that there would be something looked into it, or done about it, and the third was that the bank had no position in the matter other than that contained in the discounting papers in title I forms, under which they purchased the loan.

Mr. SIMON. Mr. Adams, I think it is quite clear that we can divide the contractors in the home-improvement field into those legitimate, honest contractors who operate ethically, and those who don't, such as the ones you have talked about here this morning.

Is it true that the large majority of the contractors doing home-improvement work are honest, ethical people, whom, as Senator Bennett indicated a moment ago, the Government should very happily guarantee their paper on their work?

Mr. ADAMS. There is no doubt about that, Mr. Simon, because my personal knowledge of dealers under the FHA title I program shows an ordinary small merchant in a neighborhood who is doing an excellent job, standing behind his work, getting improvements into areas in the hands of poor owners who otherwise might not be able to get them and thoroughly appreciating the title I improvement program, and they are in the vast majority.

Mr. SIMON. Have the operations of these suede-shoe boys tended to deter the use of the title I program by the honest home-repair contractor?

Mr. ADAMS. It has been my observation, Mr. Simon, that quite a number of title I improvement dealers, becoming aware of the alleged misuse of the title I program by the type of contractors about which we have been speaking, refrained, or diminished their actual use of title I operations.

Mr. SIMON. So that a failure to clean out the suede-shoe boy operation has actually deterred the use of the program by the ethical, reputable contractors?

Mr. ADAMS. I know of instances where it has, but to what extent it was proportionate to the whole picture, I don't know.

Mr. SIMON. Has the par deal been used in California?

Mr. ADAMS. It is my observation from the investigations, Mr. Simon, that the par deal was almost universally the practice followed by these suede-shoe boys and their companies.

Mr. SIMON. Would you explain to the committee, Mr. Adams, what we mean by the par deal?

Mr. ADAMS. Between the contracting company and the sales staff, a minimum figure for a given operation—we will confine it to the example of a spray mastic painting job—that minimum figure was set up, and for ease, we will say, \$400, and the \$400 was based on a

structure of approximately 1,000-square-foot living space, or an ordinary modest 2-bedroom home.

That par figure would return a commission of approximately 40 percent to the salesman, and any amount over and above the par figure that the salesman could get, or did get, not only increased the percentage of his commission up to as high as 55 percent, but presented an additional earning to the company, and the exceeding of par was a matter of great pride by admission of many of the salesmen to all that the traffic would possibly bear.

Senator KUCHEL. Par, then, is the equivalent of the gouge that one of these salesmen could effect from a householder when he went there to sell him a bill of goods; is that the idea?

Mr. KOONTZ. Could I answer that, Senator?

The "par" was the price that the company wanted for the job. The salesman got all over par. They established par, we will say, \$45 a square. That is 10 square feet.

Senator BENNETT. I am glad to have that explanation. I didn't quite understand the situation from Mr. Adams' statement.

Did the salesman get everything above that minimum figure?

Mr. KOONTZ. That is correct.

Senator BENNETT. And the company got no part of the additional price that the salesman added on?

Mr. KOONTZ. No. We used to see advertisements in the classified ads here in Los Angeles, these companies advertising for a salesman. "Our par is \$45," or "Our par is \$42." We have found jobs where the job was sold for \$95 or \$100. The salesman got all over \$45.

Mr. SIMON. I believe what he meant by 45 percent, a salesman operating on a par basis, if he was able to get a high enough price out of the homeowner the man could end up with a 45-percent price.

Mr. KOONTZ. The books and records I reviewed showed that was right.

Mr. SIMON. The salesman got 40 percent of the price which the homeowner agreed to pay the contractor.

Mr. ADAMS. Provided the company received its par figure in the beginning, as Mr. Koontz said.

Mr. SIMON. Mr. Adams, to what extent, if any, do you think that FHA could have stopped these practices that you have been talking about here this morning?

Mr. ADAMS. Mr. Simon, that comes as a conclusion on my own part, simply having had the experience in the field, that I felt that after the modus operandi had been thoroughly established and widely known by the contractors, discounting houses, and the FHA, that the most effective and immediate force for control would be the cutting off of the financial part of this four-part colossus.

Mr. SIMON. Mr. Adams, you talked a moment ago about the kickbacks that they frequently made to homeowners. After a homeowner would complain about the character of the job, and so forth, did they ever use the fact that the homeowner had received some of this money to keep the homeowner from complaining?

Mr. ADAMS. In my experience there were numerous times when the fraudulent or fictitious downpayment had been made, or had not been made, but was a fictitious credit applied on the contract, and the actual cash had been returned on the later transactions, and then the

job would fail, or in some other manner cause a complaint to be made before the contracting company, that they were frequently—the owners—were frequently presented forthrightly that they had received funds under FHA; they did sign a downpayment certificate, and, therefore, they were just as liable under this—any resulting prosecution—as the contractor himself.

Mr. SIMON. Is it fair to assume that the homeowner in those cases would not know that he was participating in a violation of the law?

Mr. ADAMS. In the original instances, there would be evidence come to my attention that the suede-shoe artist at the time would merely indicate "This is the prevalent practice. Everyone does it, and you will never hear anything about it." There were other instances in which it was simply interleaved with other FHA forms and a downpayment certificate saying "Without the knowledge of the owner doing it."

Mr. SIMON. Then because of that violation of the law by the homeowner—sometimes as you say without knowing it—did the suede-shoe boys in effect blackmail them into not complaining because they were also guilty of the law?

Mr. ADAMS. I found that in numerous instances, Mr. Simon.

Senator KUCHEL. What law are we talking about, Mr. Simon?

Mr. SIMON. The National Housing Act.

Senator KUCHEL. So if I understand your question, and Mr. Adams' answer, there was a criminal violation of the Federal law at the time that the fraudulent or fictitious 10 percent downpayment was supposedly made but wasn't made?

Mr. SIMON. See if we are clear on this. You might have a case, Senator, where they sold a job for \$600, and they would either provide for \$100 downpayment or in other cases as I understand it they might give the homeowner \$400 in cash and have him sign a note for \$1,000, and then at a later time when the homeowner would complain that the job wasn't any good or it was a model home pitch, and they didn't bring any customers around, the suede-shoe boys would say that "By your signing this original note, and taking the \$400 cash," which was not for a home improvement—and that is the only thing the statute permitted—or "by your acknowledging in the note you would pay 10 percent down which you haven't paid down, you, too, are as guilty as I."

Senator KUCHEL. What I mean is, did the Federal law make that type of transaction a crime?

Mr. SIMON. The Federal law did not permit a title I loan, and these were all on the forms of FHA, except for a home improvement.

Senator KUCHEL. So that there was a breach of a Federal law which quite probably then resulted in a crime being committed?

Mr. SIMON. That is right. Then they would use that to, we can say, blackmail the homeowner from complaining.

Mr. KOONTZ. Could I explain that a little further?

I think on the FHA forms at the bottom there is in black letters—

Any falsification of these documents will be subject to imprisonment and fine.

Mr. SIMON. I am sorry—

Mr. KOONTZ. On the bottom of these FHA forms, completion notice or something, says:

Any falsification of these documents will make the signer subject to a fine—

of so much money or so many years in prison. After a complaint would come in the operator would go back to the owner and say, "You have falsified this. You have laid yourself open. You have complained to the law. Now, you are in trouble."

Senator KUCHEL. Then if I understand it—and I don't want to take a lot of time on this detail, but I do want to find out whether the pattern is one of an offense against criminal laws of the Federal Government. Does the form which was used in each of these cases spell out the transaction sufficiently so that if a phony note is entered into this form still does cover it?

Mr. KOONTZ. Yes.

Mr. SIMON. Mr. Adams, did you have any further comment on that?

Mr. ADAMS. No, sir.

Mr. SIMON. Did you ever have occasion to check the actual cost of any of the mastic paint jobs?

Mr. ADAMS. Yes. I checked those. More frequently, I checked the patio and barbecue racket as to cost of labor and materials.

Mr. SIMON. Can you tell us what you found to be the cost of labor and materials compared to the selling prices?

Mr. ADAMS. In most instances the small two-bedroom home, the cost paid by the original contractor to his subcontractors and/or his employees, if he did engage employees in this, was approximately \$160.

Mr. SIMON. What was the average selling price?

Mr. ADAMS. The average selling price was \$690 to \$790.

Senator BENNETT. When you say \$160, however, just to make the record completely clear, you have allowed nothing for a normal profit for the contractor?

Mr. ADAMS. That is true, Senator.

Senator BENNETT. So that the actual cost in a normal, ethical transaction, or the actual selling price, would have been somewhere in excess of \$160?

Mr. SIMON. Senator, Mr. Adams testified earlier that an ethical, honest contractor would have charged about \$350 for one of these jobs.

Senator BENNETT. I see.

Mr. SIMON. Is that right?

Mr. ADAMS. Yes, and further on that, Senator, the actual examination of the books and records of the contracting firms which I saw did not therein reflect the matter of overhead, insurance, taxes, other operations, but that was a part of my investigation because all of these jobs that I looked at had been sold on the basis that it was the pure cost of labor and materials without profit to the company or commission to the salesman.

Senator BENNETT. This \$690 or \$790 was pure cost?

Mr. ADAMS. That represented the pure cost without commission or profit.

Mr. SIMON. They said it is the model home and we will charge you our actual cost.

Mr. ADAMS. That is right.

Mr. SIMON. In those cases you find the cost was \$160 and they were charged \$690 to \$790?

Mr. ADAMS. Yes. To the actual cost would be added the normal overhead, profit, commission, taxes, insurance, and so forth, to bring a net figure.

Senator BENNETT. They represented to these particular people that all those normal overhead figures had been eliminated for their particular case; is that right?

Mr. ADAMS. No, Senator, only profit to the company and commission to the salesman had been eliminated.

Senator BENNETT. I see.

Mr. SIMON. Then in spite of the fact that they told them that "We are just giving you this at cost because we want to use your house as a model home," the price was still about twice what an ethical contractor would have charged them?

Mr. ADAMS. That is my observation and conclusion.

Mr. SIMON. And about four times what was actually their cost?

Mr. ADAMS. That would figure.

Mr. SIMON. Have you had occasion, Mr. Adams, to examine the quality of the work done on these jobs that we are now talking about, particularly the mastic paint jobs?

Mr. ADAMS. Yes, sir.

Mr. SIMON. Could you tell us what you find?

Mr. ADAMS. In most instances the complaint which came before the contractors' State license board was because of the early failure of the paint job, or of the masonry patio unit, or the siding operation, and upon going out we found almost universally that in the spray painting operations there was blotchiness, flaking, peeling, cracking, and the trim around the openings was substandard, not only so far as the application itself of the paint, but of the paint used, and the masonry units in nearly every case, because of the haste with which they were constructed, as part of this four-part program there was early failure in the mortars and work done by inexperienced or incompetent men—many of them learners, so that in general the quality of the work was quite inferior and failed early in the life of the job.

Mr. SIMON. How early?

Mr. ADAMS. As early as 30 to 60 days, and as late as the statutory time under which, 2 years, the contractors' board would be entitled to investigate the matter.

Mr. SIMON. Do you know whether these mastic paint jobs were sold on a basis of a 10-year guaranty?

Mr. ADAMS. Most of them were sold with a printed form of 10-year guaranty, which, when analyzed as to the printed content, stated that within the 10-year period the owner would be given sufficient material to cover any failure, but the salesmen, in representing and selling the job, represented that the 10 years would be exceeded by an unqualified 10 years, and as high as 20 years' guaranty, and that came over the radio and television, that it was almost a permanent lifetime proposition.

Mr. SIMON. Mr. Adams, how much time, generally, elapsed between the signing of the contract and the doing of the work?

Mr. ADAMS. In most instances that I saw, if the contract were signed at 7:30 or 8 o'clock this evening, materials and workmen would be on the job and starting it by 8 o'clock the following morning, even in the remote areas, away from the metropolitan area.

Mr. SIMON. What was the reason for that haste?

Mr. ADAMS. That was called "spiking" the job. It was an effort, in the close cooperation between the contracting company and the mechanics, to get in and do something on the job, or deliver materials to prevent the cancellation of the contract by the owner, if he should happen the following morning to feel that he didn't want to go through with the job, and in most of the instances there was a 20- or 25-percent cost assessable against the owner for cancellation of the job.

Mr. SIMON. In the mastic paint jobs, did you find any peeling at early stages after the work was done?

Mr. ADAMS. Most of the complaints that were assigned to me had exactly that complaint, as the major portion of the complaint.

Mr. SIMON. In those cases, Mr. Adams, is the homeowner, wholly apart from the money he has to pay, worse off with the paint job than he would have been if there had been no painting at all?

Mr. ADAMS. It is my conclusion, sir, that where the mastic paint was applied to the under eaves, and to many of the parts of the structures which would normally be painted by a good workman, as a part of the trim, were shot, as they call it, by the heavy mastic and upon failure of that mastic it will now require an expensive sandblasting operation to remove the unaffected parts to present a uniform surface for recoating, and at a considerably larger cost than had the owner not gone into that operation.

Mr. SIMON. So that wholly apart from the money he has got to pay he is worse off than if they had never done the job?

Mr. ADAMS. In many cases that is correct, Mr. Simon.

Mr. SIMON. Would you tell us, Mr. Adams, what your experience was with Superior Construction Co.?

Mr. ADAMS. The Superior Construction Co. was one of many that I investigated, and as to any specific phase—

Mr. SIMON. Could you tell us how they operated and what they sold?

Mr. ADAMS. The Superior Construction Co. is one of the companies that operated in the general field of home improvements, which included patios, siding, some spray painting, some alterations, some repairs. The Superior Construction Co. followed the typical pattern of the employment of salesmen who went out into the field and made these contracts, the salesmen operating not only for Superior but for many others at the same time.

The investigations covered cases all the way from Santa Barbara to deep into Orange County, and resulted in a hearing, and the ultimate revocation of the license of Superior, and the individual license holders, also.

Mr. SIMON. Is there a model-home letter in connection with Superior?

Mr. ADAMS. Yes. It seemed that in the early stages of the model-home development, there was so much attention being developed on the so-called bonus plan, wherein the house would be used as a model, that Superior Construction Co. and others, developed a letter which purported to be the granting, or the cementing, of the bonus operation, as between the owner and the company, but which in actual effect, read and perused with any thoroughness, was an actual denial of

the use of the premises as a model-home location, and in the case of Superior Construction Co.—

Mr. SIMON. Do you have a copy of the letter, Mr. Adams?

Mr. ADAMS. I don't have one with me. It could easily be furnished.

Mr. SIMON. Could you get us one so it could be included in the record?

Mr. ADAMS. Yes, sir.

In the use and development of that letter, Superior Construction Co. and others insisted that no salesman's transaction would be accepted by the company unless the company, by letter signed by the owners, was given and, therefore, in the subsequent hearing the Attorney General prominently connected the fraudulent misrepresentation of the very letter as full knowledge on the part of the companies of the use and extent of the bonus proposition.

Mr. SIMON. Is what you are saying, Mr. Adams, that they had a carefully worded letter, which when read by a lawyer made clear that there was no bonus representation or model-home plan, but that the salesman used that to assure the homeowner that that letter meant that he would get a bonus on every sale made in using his home as a model home?

Mr. ADAMS. Yes, sir; and the evidence from the witnesses indicated that they relied and depended upon that as their guaranty in writing that the house would be so used and these earnings would come in to them, because the majority of cases that were investigated, Mr. Simon, indicated clearly that in the beginning none of these owners were in a position to pay for these improvements out of pocket.

Senator BENNETT. Do I understand you to say to us, Mr. Adams, that every person was given such a letter and induced to sign it so that every person assumed that his home was being set up as a model home on a bonus plan?

Mr. ADAMS. No, Senator. That gimmick, letter, as it was called in our hearings—

Senator BENNETT. Was a different one?

Mr. ADAMS. It was a development in the evolution of, in my opinion, sir, a well-engineered sales-engineered plan for disarming, at the same time—that is, a coverup—a subsequent coverup for the company should the matter of bonuses be brought in.

Senator BENNETT. What was the later letter, then? I understand, now, that this bonus letter was not presented to every customer, but a later letter was, and the salesman's sale could not be completed unless he had the later letter signed? What did that one say?

Mr. ADAMS. Permit me to correct that a little, Senator. In the beginning there was no such bonus letter. They were simply representations made to the owners, and the signing of the forms for FHA title I loans, and the contract—all those other papers.

Then, in the evolution of the bonus plan, considerable attention was being drawn to the use of these homes as models, and no return ever being given to the owners who were promised them, and in about 1951, to the best of my recollection, a letter, that was used by the salesman, purporting to be the cementing of the bonus relation, was introduced as the next contract document. That letter had a second refinement, an additional clause put into it. There were two such letters. The early one was not as clever and adroit as the second

one, and as Mr. Simon indicated, an attorney seeing it would realize quickly that it was the taking away of what the salesman had previously verbally offered to get the contract signature.

Senator BENNETT. Then that second letter or the first one, in fact both letters in their particular periods, were included with the documents that the customer signed?

Mr. ADAMS. Yes, sir.

Senator BENNETT. And the company would not accept the contract unless that signed document were included; is that right?

Mr. ADAMS. The owners, or operators of those companies coming under my investigation, stated that after a certain period of time they refused to take, or would refuse to take a deal unless it was accompanied by this letter, and, again, Senator, it was my conclusion that that was a preparation for some later demand on the part of the owner—"where are my bonuses?"

"Here, sir, you have signed a document that says that you don't expect any."

Senator BENNETT. I think I am straightened on that now. Thank you.

Mr. SIMON. I have no further questions.

Senator BENNETT. Do you have further questions, Senator?

Senator KUCHEL. Yes, Mr. Chairman.

Mr. Adams, when you spoke about the work being commenced early the following morning so that there would be an incurrence of liability, I assume you are talking about the application of the mechanics' lien?

Mr. ADAMS. No, I think not, Senator. Rather, the starting of performance by the contractor, which would preclude the cancellation of the contract.

Senator KUCHEL. What security—what I am trying to get at is, what security was available to the bank that bought that note other than the signature of the householder?

Mr. ADAMS. I know only this, Senator, that as a portion of the contract documents ordinarily taken—a financial statement on the FHA application for credit—

Senator KUCHEL. That wasn't security, however. That was by way of information, wasn't it?

Mr. ADAMS. Usable for whatever discounting house took it.

Senator KUCHEL. But actually there was no security running in favor of the bank except what the Government guaranteed?

Mr. ADAMS. I would conclude that.

Senator KUCHEL. Plus whatever security there was in the signature on the note of the homeowner?

Mr. ADAMS. That would be any conclusion, yes.

Senator KUCHEL. Were any liens ever reported in any of these cases? Was any trustee or mortgage trust deed or mortgage entered into this?

Senator BENNETT. No mortgage involved in title I. The Federal Government guaranteed the account, so no mortgage was needed.

Senator KUCHEL. The only way to police the loans that were made was with respect to whatever the FHA could have done in analyzing the notes that were entered into?

Senator BENNETT. Actually, the FHA never saw the note. They made a satisfactory arrangement with the lending institutions, and

they depended on the lending institution that had the opportunity, or the power, to invoke the FHA guaranty.

Senator KUCHEL. Let us take a specific example so that we understand. Suppose one of these fraudulent companies that now has had its license revoked sent one of its agents to Mr. X, and sold him \$1,000 worth of house painting. He signed a note, I assume, to the company, and the company took that note then down to the bank and sold it to the bank; is that right?

Mr. ADAMS. I think that is the procedure.

Senator BENNETT. May I interrupt at that point? If that dealer or contractor had been taken off the FHA list, or put on the FHA prohibited list, the bank had no right to buy that paper and expect an FHA guaranty.

Senator KUCHEL. That is what I am coming to, Senator. In other words, just to follow this example through, then the company would take the note down to the bank and it would sell it to the bank, and the bank would accept payments from the householder until the householder defaulted?

Mr. ADAMS. Yes.

Senator KUCHEL. At that point the bank would say to the Government, "Give us the balance of the money on the note." Is that the way that works?

Mr. KOONTZ. That is correct.

Mr. SIMON. The contractor had to be approved as an FHA dealer before he could do any of this.

Senator KUCHEL. Now, in each one of these cases where these firms who finally had their licenses taken away by the State of California, were they on the approved list of FHA?

Senator BENNETT. Up until a certain time. Some of them may still be there, but theoretically the only power FHA had was to put them on a list of those whose papers they would no longer guarantee.

I didn't mean the bank couldn't take the paper without the guaranty. If it wanted to take that chance, it could.

Senator KUCHEL. What I am trying to develop is whether or not the responsibility of FHA to police its own house was overlooked.

Mr. SIMON. As I understand it, all of these transactions they are talking about were by approved FHA dealers while they were approved FHA dealers. Is that right?

Mr. ADAMS. That is my experience.

Senator BENNETT. I have no further questions.

Senator KUCHEL. I have no questions.

Senator BENNETT. Thank you very much.

At this point may I ask Mr. J. Arthur Taylor, of 11820 Orchard Avenue, to come forward. Is Mr. Taylor here?

Mr. Taylor, will you be sworn? Do you solemnly swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF J. ARTHUR TAYLOR, LOS ANGELES, CALIF.

Mr. TAYLOR. Yes, sir.

Senator BENNETT. Will you give your name and address and your business connection to the reporter, please?

Mr. TAYLOR. J. Arthur Taylor.

Mr. SIMON. What is your address, Mr. Taylor?

Mr. TAYLOR. 11820 Orchard Avenue.

Mr. SIMON. Los Angeles?

Mr. TAYLOR. Los Angeles.

Mr. SIMON. Where are you employed?

Mr. TAYLOR. In the United States post office.

Mr. SIMON. How long have you been a postal employee?

Mr. TAYLOR. Seventeen years.

Mr. SIMON. Do you own your own home?

Mr. TAYLOR. I purchased it last year under payments.

Mr. SIMON. You are still paying for it?

Mr. TAYLOR. Yes.

Mr. SIMON. Did you have an experience with a man who came to sell you a barbecue pit?

Mr. TAYLOR. Yes, sir.

Mr. SIMON. Would you tell the committee, please, what that experience was.

Mr. TAYLOR. Well, when I wasn't at home my wife reported to me the next morning that a man had called that afternoon when I was at work and said that our lot had been selected, and nominated, to be given a barbecue for the salesmen to bring their clients or customers to see and sell similar barbecues from and would I consent to it being put in my yard for that purpose.

Mr. SIMON. Was it going to cost you anything?

Mr. TAYLOR. Well, there was word that the man would come around to interview me before anything was done, and finally when he came there was no mention of cost to me, and it was just more of putting it up, and then where he was going to have salesmen contact every person without a barbecue, between Hoover and Normandy. He would like to bring them there to see the thing and sell from it and all that.

Senator BENNETT. When he talked to you did he say anything at all about the value or price of the pit to the other people who might come to see it? Did you have any knowledge as a result of your conversation of any price?

Mr. TAYLOR. He said what his company was selling the thing for, and showed us an illustration on it, and emphasized that the cost wouldn't come to me. It would be more in what he sold and the number he sold, and so forth.

Senator BENNETT. Did he say to you that only if so many were sold would this be free to you or did he intimate that even if he never sold another one from this sample he was going to set up in your backyard it still wouldn't cost you anything?

Mr. TAYLOR. He seemed to emphasize that after he had sold a portion of them, and all that, to the value of what was his estimate of profit, that then the barbecue would become my possession in return for having loaned my property for the purpose, and he having sold the equipment, what he intended to sell.

Senator BENNETT. But at no time during your conversation with him were you told specifically that you would have to pay anything for the barbecue pit?

Mr. TAYLOR. Just at the final moment, after I had clearly emphasized that I was not going to pay for it myself, and was in no position to pay for it, he mentioned something about "You may have to tide

the payment over, if the sale of it don't bring the customers around so quickly, but otherwise the thing will absolutely pay for itself."

That was what was emphasized.

Mr. SIMON. You told him you were in no position to buy a barbecue pit?

Mr. TAYLOR. That is right, and I wasn't interested one whit.

Mr. SIMON. Can you tell us as best you can recall what you told him?

Mr. TAYLOR. I brought out evidence of my monthly payments on things to show I was in no position to take on extra things myself, and I said I wasn't interested in a barbecue matter right now and don't intend to buy any, so there is no use interesting me in it. Of course, he kept emphasizing there was more for his salesmen to sell by and that I would get the benefit of each sale, and in the end might not have to pay a cent on it.

Mr. SIMON. Finally, did you sign some papers?

Mr. TAYLOR. Yes. At the final minute he had me put my signature on a paper, and I was fighting that off from my doubt on what he had said about the salesmen being there and I strongly said, "I am not going to sign if this means that have to pay anything myself," and right then was when he made the statement—he says, "You needn't worry. It will pay for itself."

Mr. SIMON. After you signed those papers did they put the barbecue pit in?

Mr. TAYLOR. Yes. Just as you brought out, listening to what Mr. Adams was saying, it made me recall the practice then, how quickly they were on the job to put it up the next day. They had it as quick as possible.

Mr. SIMON. Did they ever use your house to demonstrate the barbecue pit to anybody else?

Mr. TAYLOR. All the time we were there we never saw a salesman approach there once showing it to any people, no matter whether we were in the front or back. We could see the salesman coming through the yard. The barbecue was back of the den where we were at times of the day sitting in the den.

Mr. SIMON. Has the barbecue pit paid for itself or are you paying for it?

Mr. TAYLOR. I have been paying for it ever since that day.

Senator KUCHEL. Mr. Simon, may I inquire, did you sign a contract, Mr. Taylor?

Mr. TAYLOR. I guess it was a contract form they had brought out there. They said before any work could go ahead on it and all that.

Senator KUCHEL. Don't get me wrong. I think the man that came out there was a contemptible person.

Did you read what the document was.

Mr. TAYLOR. I didn't you might say, get a chance to even have 24 hours to take and read it myself and all that, and I was emphatic in trying to show I wasn't interested in buying anything and all that, but he just seemed to emphasize or put pressure on, "You sign it quickly so we can go ahead and get our salesmen started to sell from it."

Senator BENNETT. You actually must have signed more than one paper.

Mr. TAYLOR. Well—

Senator BENNETT. You must have signed a note as well as a contract.

Mr. TAYLOR. As Mr. Simon brought out one time, it must have been a completion paper that was signed. I know all things involved in it. I sent down to the Better Business Bureau for information, and all, for that part involved.

Senator BENNETT. How much was the barbecue pit? What did you finally discover you had agreed to pay?

Mr. TAYLOR. A total amount, I just can't recall, but as I showed by the payment book the other day, it brought out so many payments at so much a month for I think 22 months.

Mr. SIMON. It is about \$700, isn't it?

Mr. TAYLOR. Yes.

Mr. SIMON. Did they tell you this was an FHA loan, or an FHA project?

Mr. TAYLOR. Well, they put it as under an FHA improvement.

Mr. SIMON. It was an FHA improvement?

Mr. TAYLOR. Yes.

Mr. SIMON. Did you know what FHA meant?

Mr. TAYLOR. I understood it myself from the home idea. It was there. I didn't know all the angles of what it covered under improvements.

Mr. SIMON. Were you in any way influenced by the fact this was an FHA improvement?

Mr. TAYLOR. Well, I figured myself that the bank would have refused it or gotten in touch with me before things went through, if there was other ways of blocking it, and I thought FHA guaranties were to be looked up, to see if anything fraudulent had been done against me.

Mr. SIMON. What do you mean when you say you thought the FHA guaranty would be lived up to?

Mr. TAYLOR. Well, I mean these firms putting out under FHA guaranty, it would have to bear their signature and protection. Otherwise, if it was fraudulent it could easily be traced.

Mr. SIMON. You mean you thought the FHA was protecting you?

Mr. TAYLOR. Protecting whatever money had been loaned out for my work, guaranteed by them. In other words, it would have to have their test. It was under their approval.

Senator BENNETT. But you never saw an FHA inspector?

Mr. TAYLOR. No. None came around or asked.

Senator BENNETT. It is not a part of the program that an inspector should come around. That is not a part of this program.

Did the salesman who sold you say anything about the Federal Government's part in this program?

Mr. TAYLOR. No. He practically only spoke just about getting the thing through, and how the salesman would be selling from it, and all that way, and how it would pay for itself.

Senator BENNETT. That is all I have.

Senator KUCHEL. Mr. Chairman.

Do you remember the name of the salesman?

Mr. TAYLOR. Yes, Mr. Beale.

Mr. SIMON. Do you remember the name of the company he worked for?

Mr. TAYLOR. Directional Manufacturing.

Mr. SIMON. Directional Construction Co.?

Mr. TAYLOR. Yes. They were in the business of making swimming pools, barbecues.

Senator BENNETT. I guess maybe your lot wasn't quite big enough for a swimming pool or he might have tried that, too.

Senator KUCHEL. Your statement is, Mr. Taylor, that Mr. Beale told you it wouldn't cost you anything?

Mr. TAYLOR. It would pay for itself through the sales made from it.

Senator KUCHEL. Can you describe how he gave the contract to you? Did he have the contract with him?

Mr. TAYLOR. He had this paper as much as to say "You sign down at the bottom so we can go ahead."

Senator KUCHEL. Then you signed?

Mr. TAYLOR. Yes.

Senator KUCHEL. Did anybody else sign?

Mr. TAYLOR. I have forgot whether my wife had to also sign, too.

Senator KUCHEL. Was this at the same time he came out to tell you what he wanted to do and he had the contract right with him?

Mr. TAYLOR. Yes.

Senator KUCHEL. You signed it right there at that time?

Mr. TAYLOR. Yes.

Senator KUCHEL. You signed it on the basis that he told you it would not cost you anything?

Mr. TAYLOR. Yes.

Senator KUCHEL. You didn't read the contract?

Mr. TAYLOR. No. I didn't have, you might say, the opportunity to study it.

Senator BENNETT. Did he actually let you take the contract in your hand, or was it put on the table in front of you?

Mr. TAYLOR. Like putting it on the table in front and quickly having it signed.

Mr. SIMON. Mr. Taylor, did you sign any papers other than the papers you signed that first night?

Mr. TAYLOR. Well, I hadn't received any other kind of paper. This was just verbally, my wife said, that the other man had said that our lot was selected for to have that.

Mr. SIMON. What I meant was, after the work was done did you sign any more papers?

Mr. TAYLOR. I think after the work was completed we had a paper to sign just showing completion of the work by the men doing the work.

Mr. SIMON. Did you read that paper before you signed it?

Mr. TAYLOR. Yes; I read that. That was short, just showing the work has been completed, according to the regulations.

Senator BENNETT. Did you realize at any point that you were signing a note? You must have signed a note, and it must have been signed as an original. In other words, it could have been a carbon.

Mr. TAYLOR. Not outside of this contract, or whatever it was.

Senator BENNETT. The salesman didn't say to you this was a note, that you were taking on an obligation?

Mr. TAYLOR. No. He didn't bring that out. All he had said about anything was, "You may have to make a payment or so to tide it

over, if the salesmen aren't quick in selling," this and that, and then something that was owed to the company, you know, for this period.

Senator BENNETT. Did he tell you how much the payments were?

Mr. TAYLOR. Well, he didn't bring it out himself. No doubt it was on this contract or paper I had signed.

Senator BENNETT. Did he leave you a copy of what you had signed?

Mr. TAYLOR. Yes. That is what I sent to the Better Business Bureau.

Senator BENNETT. How long after the barbecue pit was built before you went to the Better Business Bureau?

Mr. TAYLOR. Well, I had allowed about a month or so to prove that no salesman ever came around selling, and all that way and it hadn't turned out like it had been reported.

Senator BENNETT. When did you first find out that you had to make payments?

Mr. TAYLOR. Well, the Bank of America branch that had given the money, had sent this little payment book showing what was to be paid every month.

Senator BENNETT. Did that payment book come before you went to the Better Business Bureau, or afterwards?

Mr. TAYLOR. Before I went to the Better Business Bureau. That is what helped show them.

Senator BENNETT. That is one of the reasons?

Mr. TAYLOR. Yes.

Senator BENNETT. When you got that payment book was the first time you realized you were obligated?

Mr. TAYLOR. Yes.

Senator KUCHEL. What was the date on which you signed the contract?

Mr. TAYLOR. I don't recall. I hadn't been living long in this new home I bought, so it was shortly after that.

Senator KUCHEL. I mean about when was it that you signed this contract? A year ago, 2 years ago?

Mr. TAYLOR. Close to 2 years ago.

Senator KUCHEL. Two years ago?

Mr. TAYLOR. Yes, and the payments now I think are almost up. There was a notice there the other day when I showed Mr. Simon, the book—one of the last times I made the payment. They tore off a slip and sent it to the bank. I think that was showing it was nearing the end of the payment.

Senator KUCHEL. How much did you pay for your house?

Mr. TAYLOR. \$12,500.

Senator KUCHEL. That is all for me.

Senator BENNETT. Do you have any more questions of Mr. Taylor?

Mr. SIMON. No, sir.

Senator BENNETT. Thank you very much for coming to give us firsthand a real example of how this thing affected the homeowner.

I just have one more question. When you signed that paper did it look like a Government document? Was it represented to you as a Government document?

Mr. TAYLOR. No, sir. It just seemed to be all on the part of the salesman, like worded up, or drawn up by the company, or salesman together.

Senator BENNETT. You had bought other materials on the installment plan; had you not?

Mr. TAYLOR. Yes.

Senator BENNETT. You had signed other contracts in the past?

Mr. TAYLOR. Yes.

Senator BENNETT. This looked like more or less the same kind of a contract that you had signed previously?

Mr. TAYLOR. Well, no. It seemed the first of its kind on account of the way it was described and the purpose, you know.

Senator BENNETT. All right. Thank you very much, Mr. Taylor. We appreciate your coming.

Senator BENNETT. Mr. John Pendergast, the FHA, from San Francisco, please.

Mr. Pendergast, will you be sworn, please.

Do you solemnly swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. PENDERGAST. I do.

TESTIMONY OF JOHN PENDERGAST, EXECUTIVE ASSISTANT, FEDERAL HOUSING ADMINISTRATION, SAN FRANCISCO, CALIF.

Senator BENNETT. Will you sit in the same chair that Mr. Taylor occupied, please, and will you identify yourself to the reporter.

Mr. PENDERGAST. John F. Pendergast, 101 Westwood Drive, San Francisco, executive assistant, Federal Housing Administration, San Francisco.

Mr. SIMON. Mr. Pendergast, you are more or less in charge of the title I program in San Francisco?

Mr. PENDERGAST. Yes, sir.

Mr. SIMON. How long have you had that duty?

Mr. PENDERGAST. Four years.

Mr. SIMON. Could you tell us briefly the experience you have had in the title I program in San Francisco, and the extent to which these matters that have been testified to here this morning prevailed in the San Francisco area?

Mr. PENDERGAST. Yes. In San Francisco we had, I might say, the title I become somewhat of a nightmare. First of all, we had a law that was written and passed by Congress during the days of the depression to afford people an opportunity to repair their homes.

In 1951 and 1952 we had an avalanche of salesmen come into our area. I don't say this derogatory to Los Angeles, but 90 percent of them came from the Los Angeles area.

Mr. SIMON. Did they come from any particular companies?

Mr. PENDERGAST. I wouldn't say that, Mr. Simon; no. These salesmen were more or less floaters. Some of the companies had a large group of salesmen. Those I called into my office immediately. My rule was the minute they came over the Bakersfield line was to present the names of their salesmen to me, together with their background, and what they had been doing. I checked to the best of my ability with various organizations to see that these people were responsible.

For instance, Enterprise Construction Co., I heard the name come up today, they had many salesmen in the Los Angeles area. I met.

with Mr. Thomas, assistant director of the Los Angeles Federal Housing Administration in 1952, and had Mr. Tentzer, the president of the company, together with the managing owner of the northern California area, and advised them that in the event any of their salesmen were to come past Bakersfield we would want to know who they were. That was agreed upon and Mr. Thomas was in accord with that.

Mr. SIMON. Why did you ask that particular company to advise you when their salesmen came north of Bakersfield?

Mr. PENDERGAST. I asked all companies to do that.

Mr. SIMON. All companies?

Mr. PENDERGAST. All companies I knew were working in the area. We are not advised when a dealer is set up by the banks. That is something that is up to the banks to approve. The FHA contract with the bank charges them with the responsibility of using prudent lending judgment. We leave it entirely up to the banks to approve their dealers.

Mr. SIMON. Do you think the banks did use prudent business judgment in these FHA home improvement loans?

Mr. PENDERGAST. In some phases, yes; and in some phases, no.

Mr. SIMON. Will you tell us the extent to which you think they did not do it?

Mr. PENDERGAST. I believe in mastic paints, I don't believe the banks were using prudent lending judgment, to take a mastic-paint job on a small bungalow for \$1,000, \$1,500, or \$2,000. We had very little trouble with siding, other than the suede-shoe operators, but mastic-paint we had, they were quite a headache to us.

Mr. SIMON. Will you tell us about the mastic-paint jobs?

Mr. PENDERGAST. Mastic-paint jobs, we have one instance in San Francisco in which we had indicted 12 salesmen, and the owners of the firm, 3 of them are now in prison and the rest are on probation under heavy fines. The mastic-paint is used on the model-home pitch. We had no way to tell whether the paint was good, bad, or indifferent. I had written to the Washington office on several occasions, because we got wind of this thing coming, that it might be something on the form of the cocoon paint which was used by the Navy to mothball the fleet.

There were many offshoots of that. I personally believe some of the paints was mixed in the backyard in a rusty bucket. I don't believe it was worth the bucket it was put in.

We had many applicators. There were two differences in the mastic paint. One was the—three, we might say—one was the manufacturer of the paint, the second was the dealer who sold it, and the third was the applicator who applied it. The applicators were free from these particular firms. They just picked these people out to do their work.

Mr. SIMON. Were the mastic-paint jobs sold on the "par" deal?

Mr. PENDERGAST. Yes. They were sold on the par deal.

Mr. SIMON. Will you explain to the committee what the par deal was?

Mr. PENDERGAST. A par deal is where a firm says to a salesman "Our cost and our profit will be \$15, \$20, or practically \$28 a square." And an uncontrolled par allows the salesman will get whatever the unsuspecting homeowner will pay.

Mr. SIMON. Does he keep the difference between par and what he gets?

Mr. PENDERGAST. Yes. He has nothing invested except a pair of suede shoes and unmitigated gall.

Mr. SIMON. Do you know to what extent these salesmen sold these mastic-paint jobs above par?

Mr. PENDERGAST. I would say every mastic-paint job I have ever seen has been sold at least 50 percent.

Mr. SIMON. At least 50-percent above par?

Mr. PENDERGAST. That is right.

Mr. SIMON. And how high above par did it go?

Mr. PENDERGAST. We have had some cases, Mr. Simon, where they have charged as much as \$100 a square.

Mr. SIMON. What would par be?

Mr. PENDERGAST. It might be \$28, \$30 a square.

Mr. SIMON. Three to four times par?

Mr. PENDERGAST. Yes, sir.

Mr. SIMON. What kind of dollars are we talking about on an average home?

Mr. PENDERGAST. On an average home I have seen a small five-room house sold for, I believe, \$2,200, where the actual cost and profit to the firm was \$590, I believe. This is figures I may have been wrong on. The difference was split up between the homeowner and the salesman.

Mr. SIMON. That was a kickback to the homeowner?

Mr. PENDERGAST. Yes; a kickback on a par deal.

Mr. SIMON. How much was kicked back to the homeowner?

Mr. PENDERGAST. \$1,000.

Mr. SIMON. So the paint job cost \$600, roughly?

Mr. PENDERGAST. Yes.

Mr. SIMON. The homeowner was given \$1,000 in cash?

Mr. PENDERGAST. That is right.

Mr. SIMON. Then he had to sign a note for \$2,200?

Mr. PENDERGAST. That is right.

Mr. SIMON. So that the salesman got \$800?

Mr. PENDERGAST. Yes, sir.

Senator BENNETT. The salesman got \$600 plus his commission on the par. Didn't he get a commission on the par?

Mr. PENDERGAST. No. His par was worked out, the difference between that, Senator, would be the \$28 par, you might say, and when the job went, or it came \$600—\$2,200 was the price, \$1,600, of which the homeowner got \$1,000.

Senator BENNETT. If a salesman sold a job at par, he got no commission?

Mr. PENDERGAST. No.

Mr. SIMON. Wouldn't that tend to encourage the salesmen to see how much they could take from the homeowner?

Mr. PENDERGAST. I believe that is right; yes, sir.

Mr. SIMON. Now, what particular companies did you have the most trouble with in the San Francisco area?

Mr. PENDERGAST. Let me see. On mastic paint, we had very little mastic paint in San Francisco. We are very fortunate in having a building department that was a little bit on their toes, and watched it, and we didn't have it, but in the East Bay—

Mr. SIMON. The city building department?

Mr. PENDERGAST. Yes. And also, I might add, that the State contractors' license board in Frisco worked hand in hand with us along with the better business bureau. We put on a campaign against this in 1952. We notified the newspapers; we had a press conference, where we concocted the term "suede shoe boys," and we typed them, and notified the banks of it, and I would say the East Bay area was more severely hit than San Francisco.

For instance, San Francisco, you have to have a certain type of scaffolding which adds maybe \$100 or \$200 to the price. The suede shoe salesman doesn't want that taken out of his profit. They sold in the areas where he would get more money.

Mr. SIMON. What areas did they operate in?

Mr. PENDERGAST. Oakland, Alameda, Berkeley, Contra Costa County, up through Sacramento as far as the Oregon line, Stockton.

Mr. SIMON. What companies did you have the most trouble with?

Mr. PENDERGAST. I would say the biggest operator there was the Commercial Improvement Co. of Los Angeles.

Mr. SIMON. What other companies?

Mr. PENDERGAST. The Academy Home Improvement Co.

Mr. SIMON. Did Enterprise Construction operate up there?

Mr. PENDERGAST. They did operate up there on their own franchise, not as a branch of the Los Angeles organization.

Mr. SIMON. Did you have any trouble with them?

Mr. PENDERGAST. They didn't put on mastic.

Mr. SIMON. Did you have any trouble with any of their work?

Mr. PENDERGAST. I didn't have too much trouble with any of them because I laid the law down to them as they came into my territory, told them what we wanted and expected.

Mr. SIMON. Did you have any hearings up there to take away FHA approval from some of these people?

Mr. PENDERGAST. Any number of them.

Mr. SIMON. Will you tell us the companies involved?

Mr. PENDERGAST. Enterprise, we had 11 people indicted and 11 convictions, we had the Alsar Co., an aluminum company. We had also the Maryland Construction Co. of Los Angeles, the Commercial Improvement Co. of Los Angeles, and there are many others that I just can't recall now.

Mr. SIMON. What other types of home-improvement programs other than mastic paint were sold on the model-home pitch by these suede-shoe boys?

Mr. PENDERGAST. I would say anything in the home-modernization program was sold on the par basis, and on the model-home basis.

Mr. SIMON. What are some of the others?

Mr. PENDERGAST. Patios. We had a little difficulty in Fresno with the Enterprise Construction Co. in which some of their salesmen went out and had offered bonuses to the people, telling them it wouldn't cost them anything. We got into that. We had several hearings in my office, of which I have transcripts on, and we subjected the salesmen to precautionary measures and put the company on notice that this is their first hearing, and the second time they would be recommended for precautionary measures to our Washington office.

Mr. SIMON. Mr. Pendergast, before a project or improvement can be sold under the FHA home-improvement program, it has to be approved by FHA, doesn't it?

Mr. PENDERGAST. On a title I loan?

Mr. SIMON. Yes.

Mr. PENDERGAST. No, sir.

Senator BENNETT. Well, now—

Mr. SIMON. I don't mean the particular work on the particular house, but, for example, before gold-plated solariums could be covered by title I loans, FHA would have to include gold-plated solariums among the items that could be covered by a loan?

Mr. PENDERGAST. That is exactly right.

Mr. SIMON. Didn't Congress intend—as appears from the law—that the law be used to permit homeowners to make improvements to their homes?

Mr. PENDERGAST. That is right.

Mr. SIMON. Do you think there was any reasonable basis for including patios and swimming pools under the home improvement program of title I?

Mr. PENDERGAST. That all happened prior to my getting into title I.

Mr. SIMON. I am not quarreling with you.

Mr. PENDERGAST. No. I really can't say why they put them on. I am on record with Washington to abolish swimming tanks and such things. I even went as far as water softeners.

Mr. SIMON. I am not quarreling with you.

Mr. PENDERGAST. I realize that. I mean I haven't the mechanics of why they did that.

Mr. SIMON. Don't you encourage—I don't mean you—but doesn't it encourage these suede-shoe boys to operate these things by permitting the patios and barbeque pits to be covered by title I home loans?

Mr. PENDERGAST. It does. If those are ruled out the suede-shoe boys are not controlled, they will get into something else.

Mr. SIMON. Wouldn't it tend to a more efficient administration of the purposes of the act if FHA loans were limited to the type of home repairs that a homeowner needs to make, to keep his house livable?

Mr. PENDERGAST. We have that condition today, and we are getting better every day.

Mr. Mason, our new commissioner, has ruled out many items. It is the greatest boon to field offices of FHA that we have ever had.

Mr. SIMON. You are ruling out the fringe items?

Mr. PENDERGAST. Swimming tanks and what I term as luxury items. Photo-murals, and things of that type.

Mr. SIMON. If a man needs a new furnace he is pretty apt to go to a reputable furnace dealer in his community?

Mr. PENDERGAST. That is right.

Mr. SIMON. If he doesn't need something, such as a barbeque pit, doesn't that lend itself to a salesman seeking him out to sell him something he doesn't need and doesn't want?

Mr. PENDERGAST. That is absolutely right.

Mr. SIMON. Therefore, if you limited the program to the things that he needed wouldn't you tend to divert him to the honest, ethical repair people in his community?

Mr. PENDERGAST. I would hope it would work out that way. Time will tell now that we are off many of those items, but there is always

a lending institution that will come along and say "FHA is not going to take them. We will take him on our program."

The poor unsuspecting homeowner then pays 8, 16 percent interest.

Mr. SIMON. Neither you nor I have any responsibility for what a bank does in the absence of an FHA program.

Mr. PENDERGAST. That is right.

Mr. SIMON. We do have a responsibility on the FHA program.

Mr. PENDERGAST. I am interested as a citizen with the homeowner that he gets a decent break, even if uninsured.

Mr. SIMON. Which he hasn't had in these home improvements in the last few years.

Mr. PENDERGAST. That is exactly right.

Senator BENNETT. No further questions. Thank you very much, Mr. Pendergast.

Mr. Fred Thomas of the Los Angeles office of FHA.

Do you solemnly swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF FRED S. THOMAS, ASSISTANT DIRECTOR, FEDERAL HOUSING ADMINISTRATION, LOS ANGELES, CALIF.

Mr. THOMAS. I do.

Senator BENNETT. Mr. Thomas, will you sit there and identify yourself to the reporter.

Mr. THOMAS. Fred S. Thomas, assistant director, FHA. My address is 385 South Curson Avenue, Los Angeles, Calif.

Mr. SIMON. You are the acting director of the Los Angeles FHA office?

Mr. THOMAS. No, assistant.

Mr. SIMON. Assistant director?

Mr. THOMAS. We have a director now.

Mr. SIMON. You have been in charge of the title I loan program, have you?

Mr. THOMAS. More or less since August, 1950.

Mr. SIMON. Would you tell us briefly, Mr. Thomas, your experiences with title I home program here?

Mr. THOMAS. Yes. When I was appointed assistant director, in August 1950, I was amazed to find that we were receiving so many complaints, principally on water softeners—so many bad uses of salesmanship were being employed in selling of water softeners.

We called in members of the Water Softeners Association and warned them if they did not clean up their industry what action we would take against them.

We also sent a representative of our office to speak before the association. They were using the bonus plan, referral plan, \$50, \$100, and so forth. And apparently they were selling an item terrifically overpriced.

They didn't do anything about it. We made a report to the Washington office on the subject, a written report, in which I stated that I thought the item should be declared ineligible.

Mr. SIMON. You thought water softeners ought to be ineligible?

Mr. THOMAS. Yes.

Mr. SIMON. Was that because you didn't think they were a home improvement of the type Congress intended?

Mr. THOMAS. That and the abuse.

Mr. SIMON. That is, abuse by the dealers?

Mr. THOMAS. Right.

Mr. SIMON. What did Washington do with that recommendation?

Mr. THOMAS. They were never removed.

Mr. SIMON. They were never removed from the list?

Mr. THOMAS. No, and haven't been up to the present time.

Mr. SIMON. They didn't accept your recommendation?

Mr. THOMAS. Exactly.

Senator BENNETT. Are they still on the list even since Mr. Mason reduced the number of items on the list?

Mr. THOMAS. They are still on the list.

Mr. SIMON. Would you go on?

Mr. THOMAS. Yes.

The following March, in 1951, we had had a great deal of conversation at the lenders luncheons on the subject, what was taking place. We discussed the whole matter, so with the approval of the director I sent out a letter to the lending institutions, all of which were approved, to make title I loans, notifying them that if they continued to approve dealers where they knew that they were using bonus plans, or inducements of any sort, that their contract for insurance was in jeopardy. This, of course, had the approval of the Washington office, since otherwise I would not have had the authority to do so.

That went on up until 1952, I think. I can't tell you exactly how many water softener dealers were recommended to the Washington office to be placed on the restricted list, but I believe from 1950 up until the present time we have recommended that some 70 dealers be restricted, and I would say that that is more than 50 percent of the dealers that we had complaints on.

Mr. SIMON. Mr. Thomas, what experience have you had with mastic paint, barbecue pits, and siding?

Mr. THOMAS. We have also had bad experience with mastic paint. There wasn't a volume there as in the water softeners because there were thousands of water softener dealers, but a great many of mastic paint dealers, and in perhaps all of those—perhaps there may have been some model home pitch used in those, but to the best of my recollection the trouble there has been workmanship, poor workmanship, cracking, peeling, etc.

Mr. SIMON. Why should these people be selling mastic paint instead of just regular paint that they know will produce a good job?

Mr. THOMAS. Well, I think they probably can sell it, or make a larger contract on that than the ordinary paint job. They can sell it for more. In other words, I think part of the salesmanship was it would last for years and years, it was waterproof, etc.

Mr. SIMON. Actually, how long did it last?

Mr. THOMAS. Well, I think that some of it discolored, started cracking and peeling anywhere from 30 days up to a year or 2 years.

Mr. SIMON. Wouldn't it have been a prudent thing for FHA the moment they learned that these mastic paint jobs that were guaranteed for 10 years or more started cracking and peeling in 30 days, to have removed mastic paint from the approved list of home repairs?

Mr. THOMAS. I think it would.

Mr. SIMON. What about barbecue pits? Have you had a lot of those?

Mr. THOMAS. We have had trouble with barbecue pits.

Mr. SIMON. What troubles have you had with barbecue pits?

Mr. THOMAS. A lot of them were sold, I believe, on the model home plant. Also they were not correctly installed.

Mr. SIMON. Do you think that Congress ever intended the title I law to be used for swimming pools and barbecue pits and patios, and the like?

Mr. THOMAS. I really don't know. I don't know what the intent of the law was. They said home improvements are improvements to structures. Whether or not a swimming pool, which is more or less a luxury item, is considered an improvement to structure in the intent of the law, I wouldn't be prepared to say.

Senator KUCHEL. At any rate, FHA so interpreted the law, naturally, so that swimming pools and outdoor barbecues were available under that title?

Mr. THOMAS. Yes.

Senator BENNETT. Do you have very much trouble down here with fire-alarm systems?

Mr. THOMAS. No. We have had hardly any complaints with fire-alarm systems.

Senator BENNETT. Have there been many sold in this area?

Mr. THOMAS. I have no knowledge that there have been.

Mr. SIMON. Mr. Thomas, did you get cooperation from Washington in trying to eliminate these title I abuses?

Mr. THOMAS. Yes. I think in most every case here I have made a recommendation, which, of course, was discussed with my director before I made the recommendation, they acted upon it, with the exception of 2 or 3 cases.

Mr. SIMON. What are those 2 or 3 cases?

Mr. THOMAS. The first recommendation I can recall right off, they did not have time the first time, Superior Construction Co.

Mr. SIMON. What did you recommend as to Superior Construction Co.?

Mr. THOMAS. We recommended they be placed on the precautionary list.

Mr. SIMON. When did you make that recommendation?

Mr. THOMAS. I think it was August 1951, the first recommendation.

Mr. SIMON. When did you make the second recommendation?

Mr. THOMAS. Either the latter part of 1952 or early 1953, because they were restricted in early 1953.

Mr. SIMON. Why did you recommend in 1951 that Superior Construction Co. be put on the precautionary list?

Mr. THOMAS. As far as I can remember, there were irregularities. I don't remember the specific case.

Mr. SIMON. Were they using the model home pitch by suede-shoe boys?

Mr. THOMAS. It could have been that. There may have been some kickbacks, but I don't recall right off.

Mr. SIMON. At any rate, it was about a year and a half between the time you asked that they be put on the precautionary list and the time they were put on?

Mr. THOMAS. That is right.

Mr. SIMON. What are the other instances?

Mr. THOMAS. In the case of Nationwide Construction Co., we recommended that the principals of that company—one was Mr. Fred Zwieback—

Mr. SIMON. How do you spell that?

Mr. THOMAS. Z-w-i-e-b-a-c-k—who was also in the Cardiff Corp.

Mr. SIMON. How do you spell that?

Mr. THOMAS. C-a-r-d-i-f-f Corp.

They acted upon Nationwide Construction Co., and one principal, but they did not place Mr. Zwieback on the precautionary list.

Mr. SIMON. That Cardiff Co.—

Senator BENNETT. Cardiff Corp.—

Mr. SIMON. Cardiff Corp., they sold principally patios and barbecue pits, didn't they?

Mr. THOMAS. I believe that is true.

Mr. SIMON. They used both the model home pitch and the kick-backs, didn't they?

Mr. THOMAS. I think they did.

Mr. SIMON. How long did it take to get them on the precautionary list?

Mr. THOMAS. They are not on. They have it up at this time.

Mr. SIMON. They are still approved?

Mr. THOMAS. No; they are out of business. Have been for a long time.

Mr. SIMON. When did they go out of business?

Mr. THOMAS. I am not sure of the date.

Senator BENNETT. Did they go out of business because of pressure from FHA?

Mr. THOMAS. Not to my knowledge.

Mr. SIMON. Was it because of the State of California?

Mr. THOMAS. Their license was revoked.

Mr. SIMON. The State of California revoked their license?

Mr. THOMAS. We made a report to the Washington office on that and on the principal, too, as late as the last 2 or 3 months.

Mr. SIMON. When did Cardiff go out of business?

Mr. THOMAS. I don't remember the date.

Mr. SIMON. What is your best recollection, a month or a year ago?

Mr. THOMAS. I would say a year and a half ago.

Mr. SIMON. About a year and a half ago?

Mr. THOMAS. Yes.

Mr. SIMON. But up until the time that the State of California took away their license they were an approved FHA dealer?

Mr. THOMAS. Well, the FHA does not approve the dealers. As you know, the lending institution approves the dealers. We don't even know who the dealers are until we start getting complaints.

Mr. SIMON. It is the other way around. You put them on the precautionary list and, therefore, disapprove them?

Mr. THOMAS. Yes.

Senator BENNETT. Are the principals of the Cardiff Corp. Fred and Gladys Zwieback, operating under any other corporate name at the present time?

Mr. THOMAS. It is questionable. That is a matter which I referred to the Washington office, that he is operating at the same address,

apparently, as he previously had, so I wrote a letter to the Washington office and told them that I thought they should look into the activities to see whether or not he was using the name of another company.

Senator BENNETT. Isn't that one of the devices these people use, both the salesmen and the companies, as soon as they get into trouble they change their names?

Mr. THOMAS. The salesman can usually get by with that, but ordinarily the principals cannot because the principals are pretty well known to the lenders.

Senator BENNETT. Was your precautionary disciplinary action directed against the principals or against the corporation?

Mr. THOMAS. On the Nationwide Construction Co., which Mr. Zwieback was one of the principals, was against the Nationwide Construction Co. and the principals.

Senator BENNETT. Yet you tell us Mr. Zwieback is still operating at the same old address?

Mr. THOMAS. Yes, but not presumably. He is in the rubber-hose business, not anything connected with title I.

Mr. SIMON. Mr. Thomas, what reason, if any, did Washington give you for not adopting your recommendations to put Superior Construction and Nationwide and Cardiff on the precautionary list?

Mr. THOMAS. They did put Nationwide on, and one of the principals, but they eliminated Mr. Zwieback.

Mr. SIMON. What was the reason?

Mr. THOMAS. If I recall correctly, there wasn't sufficient information to place him on, words to that effect.

Mr. SIMON. They said they didn't have sufficient information?

Mr. THOMAS. Yes.

Mr. SIMON. Is that the same reason they didn't put Superior Construction on the precautionary list?

Mr. THOMAS. Something to that effect.

Mr. SIMON. Are there any other instances where your recommendations weren't followed?

Mr. THOMAS. I don't recall. Generally speaking, they followed every recommendation that I made, with the exception of those two.

Mr. SIMON. Superior Construction was ultimately put out of business by the State of California, weren't they?

Mr. THOMAS. The license was revoked.

Mr. SIMON. Wouldn't it have been a lot easier for FHA merely to put these companies on a precautionary list than for the State of California to go through their administrative proceeding and hear witnesses and have a hearing to revoke their license?

Mr. THOMAS. It probably would. You see, we only have authority to recommend from our office here to the Washington office. We don't have authority to place them on the precautionary list.

Mr. SIMON. Washington could put a company on the precautionary list without any formal hearing, just acting on your recommendation, couldn't they?

Mr. THOMAS. They have in all cases, as far as I know, accepted our recommendation.

Mr. SIMON. They didn't in the Superior or Cardiff, did they?

Mr. THOMAS. With the exception of those two. Not Cardiff—Nationwide.

Mr. SIMON. I thought you said Nationwide, they did put on the precautionary list.

Mr. THOMAS. Not one of the principals.

Mr. SIMON. FHA all along had the power, didn't they, to put these suede-shoe operating companies—that is, the principals, the companies that employed the suede-shoe salesmen—FHA could have put them on the precautionary list at any time, and then immediately stopped their title I operations, couldn't they?

Mr. THOMAS. Our instructions were, we had to have what you might say is pretty good evidence that they were violating the regulations, irregularities, or workmanship was poor. Now, we just couldn't recommend, saying, "We think this man is a bad actor in the game." We had to have written complaints, and in most cases where there was a violation of the regulations we required the borrower, and had to have it signed in the presence of a notary.

Mr. SIMON. Did FHA consider its obligation to be to protect the homeowner or to protect the dealers?

Mr. THOMAS. Entirely the homeowner, as far as I was concerned.

Mr. SIMON. Do you know whether that was the policy of the Federal Housing Administration, itself?

Mr. THOMAS. Throughout, you mean; nationwide?

Mr. SIMON. Yes.

Mr. THOMAS. I do not know what the policy was.

Mr. SIMON. It certainly should have been to protect the homeowner, shouldn't it?

Mr. THOMAS. I think so.

Mr. SIMON. No doubt about that, is there?

Mr. THOMAS. Not in my mind.

Senator BENNETT. It should be to protect the homeowner with respect to its disciplinary action on these dealers, but we have to keep coming back to the facts of the law, which are that the FHA guaranty protects the lending institution.

Mr. THOMAS. Exactly.

Senator BENNETT. Rather than the person who signed the note.

Mr. THOMAS. At the same time, I don't think any injustice should be done a dealer, because there are thousands of dealers, and there are very few out of those thousands that are really very bad.

Senator BENNETT. That is obvious, and it is obvious that the existence of people of the sort we have been discussing the last few minutes interfered with the operation of the legitimate dealer. They made it impossible—difficult, if not impossible—for many to service his proper customers at a proper price, because these boys moved in and mopped up the market before the dealer found out that it existed, and created ill will toward the whole program, which made it more difficult for the legitimate dealer to operate.

I think we have constantly to keep in mind, unfortunate as it may sound, the title I program under FHA included no program for inspection by FHA of the type of work done, and no guaranty to the property owner that his work would be done according to any set of standards. The title I program only guaranteed to the bank, or lending institution, that it could afford to make this loan without collateral because the Federal Government would pick up the tab for the losses under certain circumstances.

Mr. THOMAS. That most certainly is my understanding.

Senator BENNETT. So the only protection that you in FHA could give the homeowner could have been given through more rigorous policing of the people who were doing this work—of the dealers—and of the type of methods they used to make their selling or make their sale.

Mr. THOMAS. Yes, sir.

Mr. SIMON. That is all I have.

Senator BENNETT. Thank you very much, Mr. Thomas.

Mr. KENNEY. I would like to ask a question, Senator, if you please. City Wide Builders, do you know of them?

Mr. THOMAS. Yes, I do.

Mr. KENNEY. What is their record?

Mr. THOMAS. Their record is very good with us. We have had no more than two complaints. We brought one complaint to their attention, they immediately repurchased the note, and if I recall correctly, the principal's man was Mr. Thorne, who is long since dead. But I am sure our file would disclose we only had about two complaints.

Mr. KENNEY. In the enforcement of title I regulations, is it your opinion that the weakness is in the legislation, or is it in the administration of the act?

Mr. THOMAS. I think it is in the legislation.

Mr. KENNEY. What would be your recommendation?

Mr. THOMAS. First of all, I would say that there should be something in the law that would require the lender, before he approves a dealer, to have a net worth of X dollars. As it is today, if I understand it correctly, a dealer may have a good credit rating, and be worth \$100, but he can set himself up with a lending institution and discount \$100,000 worth of paper a week.

Senator KUCHEL. Mr. Chairman—

Senator BENNETT. Yes, Senator.

Senator KUCHEL. I would like to have the record show that I agree with the witness only in part. I think the legislation might well be improved, but you can't draft a piece of legislation that is going to prevent a fraudulent governmental employee from taking favors and to that extent from abusing and prostituting the whole FHA program, and part of the responsibility of what we have seen here today and yesterday, and the day before, rests in the fault of the FHA officials in not immediately disciplining and severing all official connections with those employees who have been guilty here of a complete prostitution of the oath of office they took when they became civil-service employees.

I want to say that I think—and you are an example—I think the Federal Government has fine civil-service personnel that are devoting themselves to the public good and living on their salaries, but we have seen enough instances of those exceptional cases where people have completely thrown out their oath that they took and have been responsible in part for the mess that we see here today, and to that extent it is the administration of the law that was at fault, as well as you suggest of the law itself.

Senator BENNETT. I would like to carry that theme just a little further.

As a member of the Banking and Currency Committee, when we wrote the new bill this spring we faced this question of the type of materials that could be included under the title I guaranty, and we

faced the question whether we should attempt to write in the law specifically everything that could be so included and thus, by law, exclude everything else, and I think we came to the wise decision that that would set up too rigid a pattern, because there may be programs of home improvement, developed in one part of the country, for instance, that are not required in another part of the country. There may be changes. There are changes in our method of constructing homes and, over the years, we may find that a rigidity that we set into the law would make the law unrealistic. So I think we wisely decided that we would try to put some limits in the law, and and chief limit was put in by the use of the word—and I am not quoting it exactly—use of the phrase “livability of the home.”

We are supposed now only to permit under title I those repairs and improvements which increase the livability of the home, but under that definition the Director of FHA still has the responsibility to decide whether this, that, or the other item can be included under the definition.

I think it would be impossible to write a law which would preclude this kind of abuse that we have been listening to, unless the responsible officers in FHA undertook their share of the responsibility.

You cannot write a law which will lift all responsibility from the Administrator, and by the same token we should not write a law so loosely that every administrator can interpret it as he pleases, so I hope that I can interpret your statement to mean that there is a joint responsibility both on the legislative branch of the Government and on the Administrator, and neither can avoid or evade that by any device.

Is that a fair statement?

Mr. THOMAS. That is a fair statement, very well said.

Senator BENNETT. Thank you.

Do you have anything else?

Mr. KENNEY. I have one more question, Senator.

I take it from what you said that what you would like to see would be more teeth in the law so that you can act more effectively when these cases of fraud are brought to your attention?

Mr. THOMAS. Yes. That is true. I understand our Washington office has for many years, and they have included in their budget request for employees to police FHA title I. It certainly needs it, but that each time they have gone up for this request they have been unable to get an additional appropriation. It is badly needed in the field. We have in our office three men. The principal part of their work is to collect money on which the Government has made claims. We assign to them some investigation work, but if all of it was assigned to them they would be unable to collect any money at all on claims that had been paid.

Senator BENNETT. May I interrupt at that point. That leaves us with another problem we faced when this law was written. If we were to attempt to provide men and money to support them, to police the literally millions of title I contracts that were made, the Federal Government would have to withdraw from the title I field because it would not be able to support it, so our program must rest eventually on the willingness of the industry, particularly the lending side of the industry, to police itself. If it fails, then I, for one, would be in favor of the elimination of title I because an attempt to send an FHA in-

spector out to inspect every title I job done in the United States would make the cost of that program so heavy that it would be completely unrealistic.

I realize from your point of view inside the agency, you would certainly like to have an adequate staff of men to send out on all of these complaints, and maybe there is a happy medium somewhere between, but I think the real solution of this problem rests with a tougher and more realistic attitude within the present framework of FHA, directed at the lending institutions, rather than at the dealers. If we find lending institutions that are providing financial support regularly and as a matter of policy for these dealers, then I think we ought to get tough and take them off of the program, and that can be done without too many new policemen.

We have already gone half an hour past our time for recess, which largely is my fault, and I will pass the blame onto the Union Pacific, whose train was 40 minutes late this morning, unfortunately.

We will meet again at 2 p. m. to hear seven people who have made purchases and contracts under the title I program.

We are recessed until 2 p. m.

(Whereupon, at 12:30 p. m., a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

Senator BENNETT. The hearing will come to order, and we will begin this afternoon by calling Mrs. S. A. Dilbeck.

Is Mrs. Dilbeck here?

Mrs. Dilbeck, will you be sworn:

Do you solemnly swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

Mrs. DILBECK. Yes, sir.

TESTIMONY OF MRS. S. A. DILBECK, EAST LOS ANGELES, CALIF.

Senator BENNETT. Will you sit in that chair, please, and give the reporter your name and any other identification—your address?

Mrs. DILBECK. Mrs. S. A. Dilbeck, 5042 Harbor Street, East Los Angeles, Calif. That is right off of Atlantic Boulevard.

Mr. SIMON. Do you and your husband own your own home, Mrs. Dilbeck?

Mrs. DILBECK. Yes, we are paying for it.

Mr. SIMON. What does your husband do?

Mrs. DILBECK. He is a Union Pacific man, car man.

Mr. SIMON. Works for the U. P. Railroad?

Mrs. DILBECK. Yes, sir.

Mr. SIMON. Did you recently have an experience in which a man sold you an improvement to your home?

Mrs. DILBECK. Well, it was a paint job, in 1952.

Mr. SIMON. 1952?

Mrs. DILBECK. Yes; the last of October.

Senator BENNETT. Was it a mastic paint job?

Mrs. DILBECK. Yes.

Mr. SIMON. Would you tell the committee what your experience was with the salesman and later with the work?

Mrs. DILBECK. Well, they come in late one afternoon; I was at the store and my husband, he talked to them, so he wanted them to see me, so they come back in the afternoon, later, so they brought some pictures.

Senator BENNETT. Mrs. Dilbeck, were there more than one man?

Mrs. DILBECK. Yes; one man came in. He talked a little while and they sent two more in.

Mr. SIMON. What did the first man tell you?

Mrs. DILBECK. He was kind of introducing himself and wanting to know if we would talk to these other fellows.

Mr. SIMON. Did he tell you who the other people were?

Mrs. DILBECK. One of them was Mr. Miller, but the other fellow was along. He didn't do any talking much. Mr. Miller did the most talking.

Mr. SIMON. What did he say?

Mrs. DILBECK. He showed us these pictures and pictures of houses that he had taken before they were painted and then after they were painted, so he told us if we would have our job done he would make it a show house and our house would be kind of representative of that neighborhood, and everybody would come and look at it and then when they had a job done we would get a certain percentage off of that job that was done in our area.

Mr. SIMON. Your house was going to be a model house?

Mrs. DILBECK. Yes. The picture would be taken of it and put in that book. They had a large book, with a lot of nice-looking pictures and things in it.

Mr. SIMON. They wanted a picture of your house to put in that book?

Mrs. DILBECK. He said it would be if we had the job did, but I don't know whether it was ever put in or not.

Mr. SIMON. Could you tell us what else he said?

Mrs. DILBECK. Well, we kind of made a deal with him and for him to go ahead and do that. He told us what it would be.

Mr. SIMON. Did he tell you how much it cost?

Mrs. DILBECK. Yes.

Mr. SIMON. What did he say?

Mrs. DILBECK. \$670.

Mr. SIMON. Did he tell you whether that was the regular price or a special price?

Mrs. DILBECK. No; that was kind of a special price.

Mr. SIMON. Why was it a special price?

Mrs. DILBECK. I don't know. For our house to be a demonstrator more than anything else.

Mr. SIMON. Special price because it was a demonstration house?

Mrs. DILBECK. Yes. He said the people wouldn't bother us. They would look at the house and they wouldn't have to see around the place too much.

Mr. SIMON. Did he tell you whether you would get any commissions?

Mrs. DILBECK. Yes. He said we would get a commission when the job in our area would be done. He said it would be in areas where they would give.

Mr. SIMON. Did he tell you what the commission would be?

Mrs. DILBECK. Not specially. It was different jobs, something like \$50 on a job.

Mr. SIMON. Did he tell you whether those commissions would pay for your work?

Mrs. DILBECK. Well, he said it would bring our work down. It wouldn't cost us so much. That is one reason we thought if it wasn't going to be too high we could stand it.

Mr. SIMON. Did they ever bring anybody around to look at your house?

Mrs. DILBECK. No; I never did see anyone.

Mr. SIMON. Did you ever get any commissions or bonuses?

Mrs. DILBECK. Not any at all.

Mr. SIMON. What about the work? Was it a good job?

Mrs. DILBECK. No.

Mr. SIMON. What happened?

Mrs. DILBECK. Well, it began to peel off, so my husband reported them down here to the Better Bureau.

Mr. SIMON. The Better Business Bureau?

Mrs. DILBECK. Yes. They got behind it and in January of 1953 they came out and did our job over.

Mr. SIMON. How long before that had they done it the first time?

Mrs. DILBECK. I think it was finished up on election day. That was about November——

Mr. SIMON. November 1952?

Mrs. DILBECK. Yes.

Mr. SIMON. Two months later they had to do it over?

Mrs. DILBECK. Yes. The rain set in and it peeled awful bad.

Mr. SIMON. Did they do a good job the second time?

Mrs. DILBECK. It stayed on pretty good. A few places look bad and we have had to do the woodwork over.

Mr. SIMON. Who did the woodwork?

Mrs. DILBECK. My husband did that this summer.

Mr. SIMON. What kind of a house is it?

Mrs. DILBECK. A little white stucco, it was.

Mr. SIMON. Have you told us the name of the company who did this work?

Mrs. DILBECK. The paint was from Atlas.

Mr. SIMON. Atlas Construction Co.?

Mrs. DILBECK. No; they are on the paint. They have my contract, the ones that did it, here somewhere. They kept it before when we were down here.

John Kiss did our job. He was the guy that did our job. I have his phone number and all. They have all our contract in those pink sheets somewhere.

Mr. SIMON. That was Atlas Home Improvement Co.?

Mrs. DILBECK. Yes.

Mr. SIMON. And the contract was \$676; is that right?

Mrs. DILBECK. Yes.

Mr. SIMON. And you signed up with them on October 28, 1952; is that right?

Mrs. DILBECK. Yes.

Mr. SIMON. Did you have any other trouble with them?

Mrs. DILBECK. Well that was about all, but before the job was ever done there was another fellow come out there and he made us awful

nervous because he wanted us to sign a release so he could go ahead and get his money. The job wasn't done.

Mr. SIMON. What kind of release did he want you to sign?

Mrs. DILBECK. So he could get his money, that the job was finished, the job wasn't finished.

Mr. SIMON. He wanted you to sign a completion certificate?

Mrs. DILBECK. Yes; so he could get his money. He talked awful dirty to us, told us we didn't want to pay for anything, and he would sue us if we didn't sign the papers that night, about 9 o'clock. I told my husband I was getting nervous, get him out of here, and let him go.

Mr. SIMON. You did sign it?

Mrs. DILBECK. Yes.

Mr. SIMON. And the work wasn't completed?

Mrs. DILBECK. No. They didn't complete it for quite a little bit after that, the paint on the windows, and they were supposed to do all of our screens. It was a long time before we got it finished.

Mr. SIMON. What is the condition of the work now? Is it a good job now?

Mrs. DILBECK. There is several places it started peeling. I don't know. It is guaranteed not to do that.

Mr. SIMON. Guaranteed for how long did they tell you?

Mrs. DILBECK. Well, when they was first putting it up to us it would be guaranteed for 20 years.

Mr. SIMON. Twenty years?

Mrs. DILBECK. Yes. The contract we got from the company, from the paint company, it only calls for 10 years.

Mr. SIMON. Ten years on the written guaranty?

Mrs. DILBECK. Yes.

Mr. SIMON. It is peeling now?

Mrs. DILBECK. Yes.

Mr. SIMON. Do you know whether the company is still in business?

Mrs. DILBECK. No; I don't. They were when we turned it over and had trouble with it. They called them up and they furnished the paint for it to be done over and John Kiss come and did it over.

Mr. SIMON. Have you complained to them recently about peeling?

Mrs. DILBECK. No; we haven't said anything.

Senator BENNETT. Did you have to pay John Kiss to do it over? Did they furnish the paint or did they pay Mr. Kiss?

Mrs. DILBECK. I couldn't say to that. They wanted us to give them \$100 for them to come back in and sandblast all of that off of our house and then they would go ahead and put this new coat on, and my husband told them no, I won't give you another \$100 at all, so we didn't have to.

Senator BENNETT. Is that all you have?

Mr. SIMON. Yes.

Senator BENNETT. Thank you very much, Mrs. Dilbeck. We appreciate the information you have given us, and that will be all that we need of you unless there is something else you would like to say to say.

Mrs. DILBECK. I would like to tell you I went ahead and paid on my job rather than have anything come against our name at the Bank of America. We haven't missed a payment.

Senator BENNETT. Have you finished paying for it?

Mrs. DILBECK. No, not hardly. It was to run I guess 3 years, and I will soon have it paid on 2 years.

Senator BENNETT. Yet you have had to have the job done over?

Mrs. DILBECK. Yes, they did it over.

Senator BENNETT. Thank you very much.

Mrs. DILBECK. Could I leave now, or should I stay?

Senator BENNETT. You are free to do anything you like.

We should like now to hear Mrs. Lena Burch.

Mrs. Burch, will you be sworn?

Do you solemnly swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF MRS. LENA BURCH, ARTESIA, CALIF.

Mrs. BURCH. I do.

Senator BENNETT. Will you give your name and address to the reporter, please?

Mrs. BURCH. Lena Burch, 12220 191st Street, Artesia.

Mr. SIMON. Do you own your own home, Mrs. Burch?

Mrs. BURCH. I do.

Mr. SIMON. Did you have an experience with having some asbestos shingling put on your home a couple of years ago?

Mrs. BURCH. I did.

Mr. SIMON. Would you tell the committee what that experience was?

Mrs. BURCH. Well, there was a couple of men came around in the day and wanted to talk to me about putting this shake siding they called it.

Mr. SIMON. Do you remember when that was?

Mrs. BURCH. March 13, 1952.

Mr. SIMON. That is the date of your contract, March 13, 1953?

Mrs. BURCH. Yes.

Mr. SIMON. Would you tell us what they said, Mrs. Burch?

Mrs. BURCH. Well, one man came in first and talked to me. They came back that night after I told them that my son had to be home before I would decide on anything, so the one man came in talked to us quite a while. Then he said the boss was out in the car. He would like to have him come in and talk to us, so he came in and talked to us.

Mr. SIMON. Do you remember the name of the first man?

Mrs. BURCH. I don't remember which is which. I remember two men's names, but I don't remember which is which.

Mr. SIMON. What were the two names?

Mrs. BURCH. Mr. Leonard and Mr. Schrieber.

Mr. SIMON. One was the salesman and they told you the other was the boss?

Mrs. BURCH. Yes.

Mr. SIMON. When the boss came in what did he tell you?

Mrs. BURCH. Well, he backed him up on this deal he was trying to make with us.

Mr. SIMON. What was the deal he was trying to make?

Mrs. BURCH. They wanted to put this siding on the house and I had told them I didn't want to put it on until I could have the addition on which we were planning to put on.

Mr. SIMON. You were planning to put an addition on the back of the house?

Mrs. BURCH. Yes, sir.

Mr. SIMON. You didn't want the siding on until you had the addition?

Mrs. BURCH. That is right.

Mr. SIMON. What else did he tell you?

Mrs. BURCH. He wanted to know how long it would be before we had it on. I told him I didn't know because we had to have some more money for the foundation. They wanted to know how much it would be, and I said around \$100. They said they would furnish the \$100.

Mr. SIMON. In other words, you said it would cost \$100 to put on this addition you wanted in the back?

Mrs. BURCH. Well, what I lacked. I had material, but I didn't have enough yet.

Mr. SIMON. They said that they would give you the \$100 if you would sign up with them for the siding; is that right?

Mrs. BURCH. Yes. I said I didn't want to have it put on until I got it done. They said they would go ahead and do the front part and leave enough material to finish the back part after we had it finished.

Mr. SIMON. Did they tell you your home was going to be a model?

Mrs. BURCH. Yes.

Mr. SIMON. What did they tell you about that?

Mrs. BURCH. They said there would be people come around and look at our place, and if there was any sold off of it we would get a commission.

Mr. SIMON. Did they tell you what the commission would be?

Mrs. BURCH. It seemed like it was around \$25.

Mr. SIMON. For each sale?

Mrs. BURCH. For each sale.

Mr. SIMON. Did they say anything to lead you to believe that there would be any such sales?

Mrs. BURCH. Yes. They said this was a model home in this community. They hadn't put any of those shingles on any homes around close, although I found out there was one about a mile and a half away at the time.

Mr. SIMON. Were there any commissions ever paid to you?

Mrs. BURCH. No.

Mr. SIMON. Do you know whether they sold any homeowners in your neighborhood on their asbestos shingles?

Mrs. BURCH. No, I don't. There was one time a carload, 2 or 3 men, I don't remember how many, came along and looked at the house and asked who did the work.

Mr. SIMON. Did they give you these materials for the back of the house where you were going to build the addition?

Mrs. BURCH. They brought out 17 bundles the day they brought out the material for the house, and when they put the shingles on the front part of the house they used almost 12 bundles. That was just 3 sides, and we had 3 sides of the back to do, so I knew there wasn't enough left to finish the house. When they finished they asked us to sign a completion of the labor.

Mr. SIMON. Completion certificate?

Mrs. BURCH. Yes.

Mr. SIMON. What did they tell you that meant?

Mrs. BURCH. Well, these men said if they didn't get it that evening they couldn't get their pay until I did sign it.

Mr. SIMON. You mean the workmen who worked on the job told you that they couldn't get their pay until you signed the completion certificate?

Mrs. BURCH. That is right.

Mr. SIMON. Was the work completed then?

Mrs. BURCH. The labor part they were to do was completed. I told them I didn't have all my materials, and I didn't like to sign anything until I got it. They said Mr. Rotwood would furnish that, because they had known him for a long time. He would bring it out when I was ready for it.

Mr. SIMON. Did they ever furnish those materials?

Mrs. BURCH. No, sir.

Mr. SIMON. Incidentally, this was the Ross Home Improvement Co.

Mrs. BURCH. That is right.

Mr. SIMON. Have you ever received the rest of the material?

Mrs. BURCH. No; I still have the gable on the outside that is open. I am waiting for the shingles.

Mr. SIMON. This is 2 years ago?

Mrs. BURCH. It has been a year since I have had it finished.

Mr. SIMON. A year since you have had the rest of the house finished?

Mrs. BURCH. Yes. I told them it would be a year or two before I could get it on. That was one reason I didn't want to go ahead with the front. They insisted.

Senator BENNETT. Did you have to apply the materials or pay to have them applied on the addition you put on the back of the house?

Mrs. BURCH. I did.

Senator BENNETT. They didn't come and do the labor on the rest of the job?

Mrs. BURCH. No.

Senator BENNETT. Did you expect they would come and put them on, or was it your understanding they would simply leave you the materials?

Mrs. BURCH. They would simply leave me the materials.

Mr. SIMON. You paid \$790 for this work?

Mrs. BURCH. That is right.

Mr. SIMON. You are still paying it, are you?

Mrs. BURCH. I am still paying it. I haven't missed a payment.

Mr. SIMON. You never did get any commissions from anybody?

Mrs. BURCH. I have never gotten any commissions. I did come down and ask them to, well, when I called for them to bring out the rest of the materials. I did put the addition on. No one answered. They said the telephone was disconnected. I found out they were out of business. Then I called Allied Credits, and they said he was out of business. I came down to see him.

Mr. SIMON. Who is Allied Credits?

Mrs. BURCH. That is where we had—where we paid our payments.

Mr. SIMON. That is the finance house that you have to pay your payments to?

Mrs. BURCH. That is right.

Mr. SIMON. He told you that Ross Home Improvement was out of business; is that right?

Mrs. BURCH. That is right. I asked them if I should pay, would I have to pay for what I didn't receive, and they said, well, if I didn't, I would probably get in trouble over it.

Mr. SIMON. Who told you you would get in trouble?

Mrs. BURCH. Whoever was there that I talked to. I don't know. I asked them if I would have to pay for it.

Mr. SIMON. Is that Allied Credits?

Mrs. BURCH. Yes, sir.

Mr. SIMON. When you asked them if you had to pay for what you didn't receive, they said you would get in trouble if you didn't pay it?

Mrs. BURCH. They said I might get in trouble if I didn't pay it, because I had a contract signed to pay, and they had paid Ross Improvement, and they wanted to get their money.

Mr. SIMON. That is all.

Senator BENNETT. Thank you very much, Mrs. Burch. Did you have anything else you want to say to us, anything that you think we should know about?

Mrs. BURCH. Well, that morning, the next morning after we signed the contract, I did call the better business bureau to see if they were all right, and I called them to hold it up, not bring it out until I did a little investigation. They said they had already sent the materials out. However, they didn't come until late that evening.

Senator BENNETT. Thank you. We appreciate your coming and giving this information to us.

Now, we should like to hear Mrs. Lupe Lopez.

Mrs. LOPEZ, will you be sworn? Do you solemnly swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF MRS. LUPE LOPEZ, EAST LOS ANGELES, CALIF.

Mrs. LOPEZ. So help me God.

Senator BENNETT. Will you take the seat and give the reporter your name and address, please?

Mrs. LOPEZ. My name is Lupe Lopez. My address, 5046 Nobel, East Los Angeles.

Mr. SIMON. Mrs. Lopez, do you and your husband own your home?

Mrs. LOPEZ. Yes, sir.

Mr. SIMON. And where does your husband work?

Mrs. LOPEZ. Well, he is a roofer.

Mr. SIMON. A roofer?

Mrs. LOPEZ. Yes.

Mr. SIMON. In November of 1952 did some people sell you an improvement to your home?

Mrs. LOPEZ. Yes, sir.

Mr. SIMON. Will you tell us what happened?

Mrs. LOPEZ. Well, that afternoon they said they passed by the house, and, of course, my house needed painting, and they stopped because they were looking at places that needed paint, so they stopped—

Mr. SIMON. They said they were looking at places that needed painting?

Mrs. LOPEZ. Yes.

Mr. SIMON. They stopped at yours because it needed painting?

Mrs. LOPEZ. Yes. They started telling us about this paint job that they do in homes, to improve homes, and to save money, because people paint the house 2 or 3 years, but with this paint it was going to be guaranteed for 20 years.

Mr. SIMON. Was this mastic paint?

Mrs. LOPEZ. Mastic paint. They started showing us pictures, and I says we was not ready for the painting yet, but they told me there was nice opportunity because my house needed it, so they told us they was going to do the painting for us for \$786 but the house was going to look very nice, guaranteed. They was going to put a sign outside, and people was going to admire my home and every home they have painted like mine, well, I was going to get \$25.

Mr. SIMON. Was this \$786 a special price to to you?

Mrs. LOPEZ. Well, they said it was demonstrated. They was going to demonstrate my house with the money—the paint they do, cost more money.

Mr. SIMON. Normally would cost more money?

Mrs. LOPEZ. Yes.

Mr. SIMON. You were going to get a special price because they were going to use your house for demonstration?

Mrs. LOPEZ. Yes.

Senator BENNETT. Mrs. Lopez, did they ever give you a written statement that the paint would last 20 years?

Mrs. LOPEZ. Well, they gave me a guaranty, but when I got it it was only for 10 years.

Senator BENNETT. They gave you a written guaranty for 10 years?

Mrs. LOPEZ. Yes.

Mr. SIMON. Would you go ahead, now?

Mrs. LOPEZ. Well, we decided they would paint the house, so they came and paint the house.

Mr. SIMON. Have you told us all that they said about the commissions you might earn?

Mrs. LOPEZ. Well, if they paint another home in the neighborhood where I live—I live in Bendina District—they was going to give me \$25.

Mr. SIMON. Twenty-five dollars?

Mrs. LOPEZ. For each home, yes.

Mr. SIMON. Did they say anything to you to indicate that they were going to try to sell other people in the area?

Mrs. LOPEZ. Yes. They said they was going to and they was going to put a sign, while they were painting my house.

Mr. SIMON. Did they say anything to the effect that these commissions might pay for the job?

Mrs. LOPEZ. No; it was going to be like a gift to me.

Mr. SIMON. A gift to you?

Mrs. LOPEZ. Yes.

Senator BENNETT. Did they put up the sign?

Mrs. LOPEZ. No; they never did. They never put the sign and when I called the company and when I asked them they said that they didn't

put the sign because the first thing I did was I put a complaint because I know right away that the paint was all spotted. My house to begin with was a white house with green trim. My house is a stucco. I wanted it green with a white trim, so then when I noticed that it was all spotted, it was not what they told me it was going to look like. They came and told me it was because I didn't give enough time for the paint to dry. I wait a week and another week, finally I call up again and they told me that they needed another paint job. They put another paint job on, on the one they had before, but it still was spotted worse, the third time. Finally they painted it up about three times with that mastic paint. Then I notice that the white trim was peeling off because they paint the white on the green that I had before and they, later on, the paint was coming off, so then they came and painted again, so then the third time, the fourth time I call them again and they told me there is nothing they can do, and I tell them about the sign, so they told me the reason they didn't put the sign was because they noticed that the house was going to be like this, and because my house have a lot of lime.

Mr. SIMON. Your house had a lot of lime?

Mrs. LOPEZ. Yes; to begin with, and I said, "If you know that it was like that why did you paint it?" So they told me, "Well, I am sorry, but it is one in a million that come like that." I said it happen to be mine. I was very angry and very disgusted. That is why they not even put the sign. That is what they told me.

Senator BENNETT. Do I understand that they painted the whole house three times?

Mrs. LOPEZ. Three times, and still have the spots. They are worse than ever.

Senator BENNETT. The spots kept coming through?

Mrs. LOPEZ. Yes.

Senator BENNETT. Coming through each coat?

Mrs. LOPEZ. Yes, sir.

Mr. SIMON. Is this the Atlas Home Improvement Co. that did the work?

Mrs. LOPEZ. Yes.

Mr. SIMON. When did the green paint peel off, then the white paint underneath would start to show?

Mrs. LOPEZ. Yes.

Mr. SIMON. Do you think you are as well off now as you would have been if they had never painted the house?

Mrs. LOPEZ. My house looked much better before than now that it is painted because the first thing they did, they stopped. You know, they would paint through my ventilation, you know, those small ventilators, so, of course, this summertime my house is awful warm, but I haven't done anything about it because you know I figure that when I put my complaint in you people, you want to look it over again, so I didn't touch nothing. My mirror is full of paint, too. The mirror men got mad at me. I told them I didn't paint it.

Mr. SIMON. The gas meter men?

Mrs. LOPEZ. Yes.

Senator BENNETT. They covered up your ventilator so that no air gets through it?

Mrs. LOPEZ. No, sir; none at all.

Mr. SIMON. Mrs. Lopez, did you sign a completion certificate?

Mrs. LOPEZ. Well, the last time they were there they told me that I have to sign these papers because all the men—there were about 5 or 6 men. Every one, they wanted to paint, they wanted to put the screens, the one that did the white trimming—4 or 5, I don't recall all of them. They were waiting for almost half an hour before my husband got out of work. They was waiting outside, waiting for him because I didn't want to sign until I talked to him, so when he come from work I told him why they were there, waiting for him to sign and for me to sign the release, I guess it was, so because they told me why are you getting the signing. The men are supposed to take the reports, so they get paid for it. I guess we both feel sorry for them because they were working, and all that, so I signed it. That is how happened I signed it. I explained how about if they was going to fix those trimmings and he says yes, I don't have to worry about it. Once I sign I always can call them back for what is wrong, they were supposed to come back. I never see them again.

Mr. SIMON. Did your contract or note get turned over to a bank?

Mrs. LOPEZ. Yes. It was to the Bank of America.

Mr. SIMON. Did the Bank of America ask you to pay the note?

Mrs. LOPEZ. Yes. They sent me a book. My contract was for \$786, and when I got the book I have to pay them 9 hundred something, almost \$1,000.

Mr. SIMON. What was the difference for? Is that interest?

Mrs. LOPEZ. I went to the bank and I explained to them I was to pay that much money, so they told me it was the interest, that I had to consider that, and all that, so I told them just how it was, and they was to come and fix it all over again and he told me that I already sign the release, and I says, well I told them how I happened to sign that release, because my house was not complete, but being they wanted the money to pay the men I signed it.

Mr. SIMON. Have you ever paid the Bank of America anything?

Mrs. LOPEZ. No.

Mr. SIMON. Have they ever sued you or anything?

Mrs. LOPEZ. Yes. They sent me a letter which I have here, from Washington, D. C. Then they sent me another note.

Mr. SIMON. Do you have the letter with you, Mrs. Lopez?

Mrs. LOPEZ. Yes, sir. I got this the other day. This is the one from the Bank of America.

Mr. SIMON. You have given us here a letter from the Bank of America, dated April 17, 1953, demanding payment from you of \$908.76. You have never paid them anything?

Mrs. LOPEZ. No, I didn't.

Mr. SIMON. Then the other letter is a letter to you from the Federal Housing Administration, dated November 16, 1953, saying that your account is now seriously in arrears, and asking that the matter be given immediate attention, and saying that your failure to comply with this request "will necessitate the transfer of your account to the Department of Justice for action by the Government."

And you still haven't paid them anything?

Mrs. LOPEZ. No, I haven't.

Do you want to see this other one?

Mr. SIMON. This is a letter dated August 17, 1953, from the Federal Housing Administration saying that because you hadn't paid the

Bank of America the note that the Bank of America had assigned the note to the Government, and the Government now holds your note.

Thank you.

Senator BENNETT. Do you have anything more?

Mr. SIMON. No, sir.

Senator BENNETT. Thank you very much, Mrs. Lopez. We appreciate the information that you have given us.

Do you have anything else you would like to add?

Mrs. LOPEZ. I guess that now I have to have somebody to fix my, you know, my ventilation of the house. It is awful warm and have somebody to do the work all over again.

Senator BENNETT. You see, the United States Government now holds your note and maybe you will have to have a good attorney to advise you as to what your rights are in this particular case. I am afraid that the note can be collected. I am afraid you will have to pay the note, in spite of the fact that they didn't do what they promised.

Thank you very much.

Mrs. O. C. Bean.

Is Mrs. Bean here?

Mrs. Bean, will you be sworn, please:

Do you solemnly swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF MRS. O. C. BEAN, LOS ANGELES, CALIF.

Mrs. BEAN. Yes.

Senator BENNETT. Will you give the reporter your name and address?

Mrs. BEAN. Senna Bean, 363 East El Segunda Boulevard.

Mr. SIMON. Is that Los Angeles?

Mrs. BEAN. Los Angeles.

Mr. SIMON. You are Mrs. O. C. Bean?

Mrs. BEAN. That is right.

Mr. SIMON. Do you and your husband own your own home?

Mrs. BEAN. We are buying a place.

Mr. SIMON. Where does your husband work?

Mrs. BEAN. He is a carpenter. He works for the Lakewood Housing.

Mr. SIMON. Now, in December 1952, did you have a contract with the Ross Home Improvement Co. for some home repairs?

Mrs. BEAN. Yes.

Mr. SIMON. Would you tell us about that, Mrs. Bean?

Mrs. BEAN. Well, they put some kind of siding on the house.

Mr. SIMON. Will you start back when they first came to you and tell us what they told you.

Mrs. BEAN. They came in and talked to O. C.—

Mr. SIMON. "O. C." is your husband?

Mrs. BEAN. Yes.

They got him to decide that he would let them put the siding on the house, and he told them that he wanted to add 2 rooms on the back, and they told him that if they would put the siding on the house they could get a loan enough for him to put the 2 rooms on the back, so he agreed to that, and they were supposed to put the siding on 3

walls and then after they put the 2 rooms on they were supposed to finish the siding. We were supposed to get \$600 to add the 2 rooms on.

Senator BENNETT. Where were you going to get that \$600?

Mrs. BEAN. They told us it would be an FHA loan and so after the loan went through I called the people that was carrying the loan, the United Cooperative——

Mr. SIMON. United Credit?

Mrs. BEAN. Yes. They told me that they had paid the Ross Home Improvement off and that I would have to see them.

Mr. SIMON. Would you go back a minute. How much were they going to charge you for the siding?

Mrs. BEAN. Well, the siding and \$200 for the labor, and \$600 for the 2 rooms, which come to \$1,600.

Mr. SIMON. Does that mean they were going to charge you \$800 for the siding?

Mrs. BEAN. I guess so.

Mr. SIMON. Then they were going to give your husband \$200 for his labor in putting on the 2 rooms?

Mrs. BEAN. Yes.

Mr. SIMON. Then they were going to allow you \$600 for the materials for the 2 rooms?

Mrs. BEAN. For the two rooms.

Mr. SIMON. Where was that \$600 allowance going to be?

Mrs. BEAN. We supposed it went to the lumberyard and got the material and they would send the lumberyard the money.

Mr. SIMON. They were going to pay the lumberyard the \$600 for the material?

Mrs. BEAN. Yes.

Mr. SIMON. And you were going to get the material from the lumberyard and your husband was going to put on the rooms; is that right?

Mrs. BEAN. That is right.

Mr. SIMON. They were going to pay \$600 to the lumberyard for the material, they were going to pay your husband \$200 for doing the work, which is \$800, and they were going to give another \$800 for the siding and you signed the note for \$1,600; is that right?

Mrs. BEAN. That is right.

Mr. SIMON. Did they put the siding on?

Mrs. BEAN. They put the siding on.

Mr. SIMON. Did they give you the \$200?

Mrs. BEAN. Yes; they gave us the \$200.

Mr. SIMON. Did you ever get the \$600 worth of lumber?

Mrs. BEAN. No; we never did get that.

Mr. SIMON. Will you tell us what happened on that?

Mrs. BEAN. Well, when we went out to collect the \$200, I asked him for the \$600 to put into the bank because we weren't ready to put the 2 rooms on. He told me the FHA wouldn't allow us to collect the money like that. We would have to go to the lumberyard, so O. K., my husband was working every day and he didn't have a chance to go to the lumberyard, and so when he did get out of work and went to the lumberyard to have this bill figured up, well, the people was out of business, the Ross Home Improvement was out of business.

Mr. SIMON. That is the Ross Home Improvement Co. that you bought this from?

Mrs. BEAN. Yes.

Mr. SIMON. You never did get the \$600 worth of lumber?

Mrs. BEAN. No.

Mr. SIMON. Did you ever get the siding on the fourth side of the house?

Mrs. BEAN. They put the siding all around the house.

Mr. SIMON. All around the house?

Mrs. BEAN. Yes.

Mr. SIMON. So you signed a note for \$1,600 and all you got was the \$800 of siding job and the \$200 in cash?

Mrs. BEAN. That is correct.

Mr. SIMON. And you are out the \$600?

Mrs. BEAN. Out the \$600.

Senator BENNETT. That is a new twist.

Mrs. BEAN. It is a big twist, too.

Senator BENNETT. I am sure it is.

Are you paying on the \$1,600?

Mrs. BEAN. We pay the Bank of America now on the \$1,600.

Mr. SIMON. How much are your monthly payments?

Mrs. BEAN. \$53.78.

Mr. SIMON. You have got to pay off that \$53.75 a month. You pay off the \$1,600 plus the interest; is that right?

Mrs. BEAN. That is right.

Senator BENNETT. Here is a case of clear fraud.

Mrs. BEAN. That is right.

Senator BENNETT. There is no question about that. Is the Ross Home Improvement Co. out of business?

Mr. SIMON. Yes, sir.

Senator BENNETT. Are the principals of the company within reach?

Mr. SIMON. I don't know, sir.

Senator BENNETT. Has any attempt been made to find out whether the principals of the company are still available because regardless of the FHA law it seems to me that the general statute against fraud could be applied to them.

Mr. SIMON. I saw Mr. Adams a minute ago.

Mr. Adams, do you know whether these people, Ben Ross and Max Goodman, are still around?

Mr. ADAMS. I don't know at the present time, sir.

Mr. SIMON. Do you recall when the Ross Home Improvement Co. went out of business?

Mr. ADAMS. No; it is a matter of record.

Mr. KOONTZ. They are on my list of licenses revoked.

Senator BENNETT. Do you recall when you revoked their license, Mr. Koontz?

Mr. KOONTZ. I believe one of the reporters has my list there.

Senator BENNETT. Regardless of the FHA law, it seems to me that this is a problem that could be referred to the county attorney because this is a clear fraud, receiving money or acquiring money under false pretenses, and I would suggest that you get in touch with—I don't know the official title of the California law-enforcement authorities, but I think if you get in touch with the police department and through them with the county attorney, you probably ought to be able to find

out whether Mr. Ross and Mrs. Goodman are still around because they have committed a definite crime in this case. I am not a lawyer but it looks very plain to me.

Mr. SIMON. That is right.

Senator BENNETT. It is a definite crime punishable under the State laws of California. They should be fined.

Thank you very much, Mrs. Bean.

Miss Muriel Tsvetkoff.

Will you be sworn, Miss Tsvetkoff.

Do you solemnly swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

**TESTIMONY OF MISS MURIEL TSVETKOFF, GENERAL MANAGER,
BETTER BUSINESS BUREAU, SAN FRANCISCO, CALIF.**

Miss TSVETKOFF. I do.

Senator BENNETT. Miss Tsvetkoff, are you connected with the Better Business Bureau of San Francisco?

Miss TSVETKOFF. Yes; I am.

Senator BENNETT. Will you take the chair and identify yourself, then, for the reporter, and will you be careful to speak into the microphone?

Miss TSVETKOFF. I am Muriel Tsvetkoff, and I hold the position of general manager of the Better Business Bureau of San Francisco.

Mr. SIMON. Will you tell us what has been your experience with the FHA home-improvement program in the San Francisco area?

Miss TSVETKOFF. Yes, sir. During 1952 and 1953 I personally talked with more than 1,000 homeowners regarding home-improvement transactions, and from my discussions I found that the average homeowner to whom I talked believed that if a transaction was an FHA title I deal that that guaranteed the quality and completion of the work. That was a common misunderstanding, and I believe that it was due to that misunderstanding that many people relied upon what later turned out to be the misrepresentations which were made.

Mr. SIMON. Miss Tsvetkoff, do you have any idea of what prompted that misunderstanding?

Miss TSVETKOFF. I don't know, sir.

Mr. SIMON. Do you know whether it was encouraged by the salesmen?

Miss TSVETKOFF. It might have been.

Mr. SIMON. You don't know, though?

Miss TSVETKOFF. I could not answer that; no, sir.

We find, as I was listening to the testimony earlier, it is almost identical to some of the stories we listened to in our areas. In addition to that, we had instances where people were given credit for a downpayment which was not made and which in fact those people were unable to make. We had transactions where money was allowed to pay off income tax, or was to be allowed.

Senator BENNETT. When people were given credit for a downpayment which you say they were not in a position to make, that money, however, still showed up on the note that they had to pay?

Miss TSVETKOFF. That is correct, but at the time they didn't realize that.

Senator BENNETT. So there was another case where they were induced into signing a note for more than even the most extravagant estimate of the value of the job?

Miss TSVETKOFF. That is quite true.

Mr. SIMON. Is it also reasonable to assume that anybody who couldn't afford to make, or wasn't able to make the down payment, probably couldn't afford the work?

Miss TSVETKOFF. That is true in many cases, and certainly could not afford the unconscionable prices which were being charged by some of these so-called suede-shoe boys.

I could tell you the story of one, a porter, working for a railroad out of San Francisco, who was told that all of his bills would be consolidated in one transaction, and we heard about it because he told that to the furniture company to whom he was making payments on a quantity of furniture, and the local office of the Federal Housing Administration was notified by us, and it happened that the transaction had just been signed, and Mr. Pendergast, of the FHA office in San Francisco, accompanied me out to the home of the porter, and we succeeded in getting hold of the contract, and Mr. Pendergast made the dealer take it back and rescind it.

Mr. SIMON. That is a case where he was going to have some home improvement made, and in connection with that they were going to give him the cash to pay off all his other debts and include all the debts in an FHA loan; is that right?

Miss TSVETKOFF. That is correct, and happened it to be mastic job.

Mr. SIMON. Mastic paint job?

Miss TSVETKOFF. That is right.

Mr. SIMON. Did you have a number of the mastic paint jobs up there?

Miss TSVETKOFF. There were literally hundreds of them. I don't believe your previous witnesses have testified as to a situation regarding the guaranties that might interest you. We discovered that the guaranties in many instances there were a printed guaranty concerning the mastic itself, and when the product or the job started to crack, chip, and peel, and it was guaranteed not to do, the homeowner would approach the applicator company and be told it was the fault of the mastic. On going to the producer of the mastic, that company, the manufacturer, would say it was not applied properly, and so the homeowner was in the middle with a written guaranty that wasn't worth the paper it was written on.

Senator BENNETT. There was no execution of the guaranty. It was simply a printed form?

Miss TSVETKOFF. In some instances the job was done over—

Senator BENNETT. I didn't make myself clear. I realize I didn't say what I wanted to say very clearly.

Nobody signed the guaranty with a personal signature, notarized, or any evidence of responsibility, but was the guaranty just simply a printed form that would apply to any job which was handed to the person?

Miss TSVETKOFF. That is correct.

Senator BENNETT. The person receiving the guaranty?

Miss TSVETKOFF. That is right.

Mr. SIMON. I gather they were also very fancy priced guaranties that looked like engraved stock certificates?

Miss TSVETKOFF. They were beautiful; yes.

Senator BENNETT. I have been in the paint business for 30 years, and there is a classic guaranty story in the paint industry. Somebody says "We guarantee that any linseed oil in this paint is pure linseed oil."

Now, you stop and think about that one a minute or two.

Miss TSVETKOFF. We had considerable difficulty with that.

Mr. SIMON. Did you have any difficulties with the model home pitch in San Francisco?

Miss TSVETKOFF. Yes. That was standard procedure, practically, to say that the home would be used as a model, and also we had many complaints involving the signing of a completion slip, along with the original document, a sheaf of documents were put in front of the homeowner and he was induced to sign without in most cases knowing what he was signing.

Mr. SIMON. Generally, were they signed in blank?

Miss TSVETKOFF. I don't believe all of them were, although a few were.

Mr. SIMON. I meant the completion certificates.

Miss TSVETKOFF. That I couldn't say, sir.

Senator BENNETT. Do you know of any case where anybody ever received a promised bonus from the model home racket?

Miss TSVETKOFF. I know of none.

Mr. SIMON. Did you have any experiences with what has become to be known as the par deal?

Miss TSVETKOFF. I am not too familiar with the par deal. I have heard it discussed, when I attended the meetings in the FHA office with the lenders, and with some of the offenders.

Mr. SIMON. Can you tell us what other types of improvements were subject to these unconscionable deals, other than the mastic paint?

Miss TSVETKOFF. We had some of them in connection with garbage disposal units and that type of thing.

Mr. SIMON. What was the practice?

Miss TSVETKOFF. It was the model home approach, again, the idea being they would pay a bonus for each one sold in the neighborhood as a result of the housewife telling her friends she had this wonderful thing.

Mr. SIMON. Any other types of improvements? Did you have barbecue pits in the San Francisco area?

Mr. TSVETKOFF. The weather doesn't permit many of them there. We haven't had that problem. We haven't had the swimming pool problem as you may have had in other areas of the country.

Senator BENNETT. Going back to the garbage disposal units, there are a number of reputable garbage disposal units on the market, and the price of those units is advertised constantly by reputable dealers. Were these suede-shoe boys able to hike up the price at which they would sell their garbage disposal unit, even in the face of the advertisements?

Miss TSVETKOFF. Yes. Many people didn't know what the going rate was until afterward. They probably never even thought of a garbage disposal unit, and so they hadn't bothered to check the going

rates on them. Incidentally, we have had a similar transaction involving water softeners in our area.

Senator BENNETT. Under the same general circumstances?

Miss TSVETKOFF. Yes.

Senator BENNETT. People would pay much more than they could have bought a legitimate advertised unit for?

Miss TSVETKOFF. That is quite true.

Mr. SIMON. Did you have any experiences of homeowners being told that the bonuses or commission would pay for the job and it wouldn't cost them anything?

Mrs. TSVETKOFF. Yes; we did.

Mr. SIMON. To what extent was that used?

Mrs. TSVETKOFF. I would say originally it was used extensively, but when we got together and pressed conference with the Federal Housing Administration officials, and with the State contractors' license board and other agencies and publicized it widely in our area, I think that that had a salutary effect on the representations, which were made.

Mr. SIMON. Do you think that the lending institutions are in any way responsible for these practices?

Mrs. TSVETKOFF. It depends on what you mean by responsible. We felt that greater care should be used and that is why we had these regular meetings with the Federal Housing Administration in their offices, and we attended them, and we pointed out many times that the people in business could not get along without financing and therefore financing was in a position to help clean up the city.

Mr. SIMON. At the same time, the bank which bought that paper from the "suede-shoe boys" could turn it over to the Government if there was any default?

Mrs. TSVETKOFF. That is right.

Mr. SIMON. And by that time it would be too late for the Government to do any checking, wouldn't it?

Mrs. TSVETKOFF. That is correct. One of the difficulties, of course, has been that the Federal Housing Administration offices have not had the budget and the staff to check all of these transactions. I am sure you will agree that that is true.

Mr. SIMON. Do you think that is the responsibility of the Federal Housing Administration, or of the bank that finances the deal?

Mrs. TSVETKOFF. Well, it is more or less of a joint responsibility, if the Government is going to guarantee the loan; it would seem to me.

Senator BENNETT. Were you here this morning?

Mrs. TSVETKOFF. No; I was not, sir.

Senator BENNETT. We had a little discussion on that subject. Mr. Thomas, who is assistant administrator in the Los Angeles office, made the same comment, that they should have more budget, and I made the comment also that that question was very seriously considered when we were considering the new housing bill, and it is often just that if we attempted to burden the cost of the program with the cost of inspecting literally hundreds of thousands of transactions, the Federal Government could not guarantee it. That would break the back of the program.

Mrs. TSVETKOFF. I can appreciate that.

Senator BENNETT. We would have to have to withdraw from it, so the problem, I think, rests finally in the hands of the lenders. They should see to it that they do not supply financial assistance to people of that type.

These people would disappear immediately if they couldn't find a willing market for the paper that they produce, often fraudulently.

Mrs. TSVETKOFF. I am very happy to tell you that there have been steps made in the right direction, at least in our area. Our office is now continually receiving inquiries from the lenders as to the reputation of the companies and the owners of the companies seeking financing.

Mr. SIMON. Isn't it a lot easier to keep disreputable people out of the business than it is to get them out after they are already in?

Mrs. TSVETKOFF. Yes; it is much easier. However, the making public the details of what happens when people trust representations which they do not check and determine to be true before they enter into transactions has the effect of stopping a great deal of it.

Senator BENNETT. Then you are telling us that there isn't as much of that going on now as there was a year ago?

Mrs. TSVETKOFF. I can only give you the effects from my own observation. I talked with over 1,100 people in 1953 regarding home modernization or complaints only, and up to the end of July, there were only 203 complaints involving all phases of home modernization so I think that that would indicate in this that the city has been improved.

Senator BENNETT. Are there still some of these fellows around, still trying the same old tricks in the face of the additional public information?

Mrs. TSVETKOFF. There are some of them still around, but they are in the minority and they are not using the misrepresentations that we heard previously.

Senator BENNETT. In other words, the model home trick is going to disappear?

Mrs. TSVETKOFF. I doubt if anyone in our area would get away with it any more because it has been so publicized.

Mr. SIMON. That is all I have.

Senator BENNETT. Thank you very much, Mrs. Tsvetkoff. We appreciate your coming in.

We will come back into southern California again.

Mrs. Elizabeth Riebe, will you be sworn, please?

Mrs. Riebe, do you swear that the testimony you are about to give in this hearing is the truth, the whole truth, and nothing but the truth, so help you God?

Mrs. RIEBE. I do.

TESTIMONY OF MRS. ELIZABETH RIEBE, NORTH HOLLYWOOD, CALIF.

Senator BENNETT. Will you take the chair and get close to the microphone and give the reporter your name and address, please?

Mrs. RIEBE. Elizabeth Riebe, 12542 Miranda Street, North Hollywood, Calif.

Senator BENNETT. Mrs. Riebe, do you and your husband own your own home?

Mrs. RIEBE. We are buying our home.

Mr. SIMON. Did you have an experience a couple of years ago with a home improvement?

Mrs. RIEBE. Yes, we did.

Mr. SIMON. What company sold you the improvement?

Mrs. RIEBE. California Improvement Co.

Mr. SIMON. Would you tell us the situation?

Mrs. RIEBE. Well, it started one day while we were backing the car out of a driveway. A fellow had been going down the street and asking if people were interested in having a house painted, which we were, so he asked if it would be all right if he would send someone in to speak to us, which was all right with us, so he did, and it sounded like a pretty good deal at the time, and we were not to get any bonuses or anything. They were just to send us a check, maybe, 4 or 5 days before the payment was due, and we would cash their check and then pay with a personal check of our own.

Mr. SIMON. How much was the payment going to be each month that you had to make?

Mrs. RIEBE. It is \$16.19 a month.

Mr. SIMON. How much were they going to pay you a month?

Mrs. RIEBE. They were just going to cover the check, I mean the payment.

Mr. SIMON. Was it the exact amount or was it \$27 they were going to pay you?

Mrs. RIEBE. Probably \$27. I am quite sure that was it.

Senator BENNETT. Were they going to do that every month or just the first month?

Mrs. RIEBE. No, every month.

Senator BENNETT. In other words, you were going to get that free by the process, making a few cents profit, perhaps, because they would send you their money with which you turned around and paid your payment on their job?

Mrs. RIEBE. Yes.

Mr. SIMON. Did they tell you why they were going to give you the check for \$27 every month?

Mrs. RIEBE. Well, they wanted to use the house as a model home in that neighborhood. They hadn't done any of the homes around there.

Mr. SIMON. Finally, the salesman wrote out a contract with you, didn't he?

Mrs. RIEBE. Yes, sir.

Mr. SIMON. And that piece of paper says that they will pay you \$27 each month for, is it 36 months?

Mrs. RIEBE. 36 months.

Mr. SIMON. And then you are going to pay \$26 and some change each month on the contract?

Mrs. RIEBE. Yes, sir.

Mr. SIMON. Did they do the work?

Mrs. RIEBE. Yes, sir.

Mr. SIMON. Did they send you the first payment?

Mrs. RIEBE. Yes. We have got the one check.

Mr. SIMON. Did they ever send you any more checks?

Mrs. RIEBE. No, sir.

Senator BENNETT. Was that a mastic paint job?

Mrs. RIEBE. Mastic or Guntex.

Senator BENNETT. That is mastic, I suppose?

Mrs. RIEBE. Yes.

Mr. SIMON. You only got the first payment?

Mrs. RIEBE. Yes.

Mr. SIMON. Are you still paying at the bank?

Mrs. RIEBE. That is with Allied Building Credits.

Mr. SIMON. Are you still paying them?

Mrs. RIEBE. Yes, sir.

Mr. SIMON. And you thought that you would get money from the painter to make these payments at the bank a few days before each one was due; is that right?

Mrs. RIEBE. From the improvement company, yes.

Senator BENNETT. Do you still have the full contract?

Mr. SIMON. We have it.

Senator BENNETT. Is there any evidence against which they can proceed on the basis of willful fraud in that contract?

Mr. SIMON. The company is out of business.

Senator BENNETT. It is signed by the corporation?

Mr. SIMON. Yes, sir.

Senator BENNETT. Thank you very much, Mrs. Riebe. If you get another check, let us know.

Mrs. RIEBE. Yes, sir.

Senator BENNETT. Mrs. Ruth Harter.

Mrs. Harter, will you be sworn, please? Do you solemnly swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF MRS. RUTH HARTER, VAN NUYS, CALIF.

Mrs. HARTER. I do.

Senator BENNETT. Will you take the chair and identify yourself for the reporter, please?

Mrs. HARTER. Mrs. Earl Harter, 8542 Ranchito Avenue, Van Nuys.

Mr. SIMON. Mrs. Harter, do you and your husband own your own home?

Mrs. HARTER. We are buying our home, yes.

Mr. SIMON. What does your husband do?

Mrs. HARTER. He works at Lockheed Aircraft.

Mr. SIMON. Did you have an experience a couple of years ago, a home improvement?

Mrs. HARTER. Yes, sir. We did.

The representatives from the California, or the applicators of California came to our home and approached my husband, who was outside at the time, on the application of Guntex, which is a mastic, and our house did need it. We had bought it about a year before and it was a dark brown and was badly faded and needed attention, and they, of course, said that model-home deal.

It was the same thing but principally we were interested in seeing whether it was a good product, and they showed us a notebook, with the pictures before and after, and they also showed us in the notebook a letter from the Bank of America which had, to the effect of—

The company, applicators of California, had been sent by the Bank of America to apply mastic on homes under the FHA home-improvement plan.

We saw that letter and it was signed by the bank.

Mr. SIMON. Did that impress you?

Mrs. HARTER. Yes, sir. We felt that as closely as the bank customarily investigates anybody, that they certainly was a reputable firm, and of course we had seen it highly advertised on television too and other places, so we were reluctant at first.

They gave us an original price of \$900, which we were not interested in, and they finally came down to a price of \$650, but we still weren't too interested.

We explained to them that we—as I say, we had just bought the home about a year before, that our immediate plans had been to put in a brick patio, and do improvements around the house itself and they said that that would definitely not be anything in the way of the thing, because it was quite customary to increase an FHA loan to cover anything like that, and they would simply refund the money to the homeowner, to do the work myself or hire it done, or as they said, that the company used the money any way they saw fit.

So we finally did agree to have the work done.

Senator BENNETT. For what amount was the note that you signed?

Mrs. HARTER. \$750.

Senator BENNETT. So you got \$100?

Mrs. HARTER. That is right. We were refunded \$100.

Senator BENNETT. In cash?

Mrs. HARTER. In cash—no, sir. We got a check.

Senator BENNETT. You got their check?

Mrs. HARTER. Yes, sir.

Senator BENNETT. But it was good?

Mrs. HARTER. Yes, sir, and we cashed it and it was fine.

The work itself appeared to be excellent. There was some trouble about getting it on in the first place. They claimed the house was in very poor condition, although from our standpoint it appeared fine.

There were no cracks or anything, and a man—one of the salesman's name was Burke. Then there was a man who came when there was this discussion about the condition of the house, who said he was a State building inspector, and his name was Peter Gold, or Golden. I can't recall which. But I would know the man if I saw him.

He came and said that he was called in by the contractor's board, to decide on questionable cases of that sort, that the post office in Sherman Oaks was one place where he had come in to decide between a paint job done on the post-office building, as against the contractor who had done the work, and that his was the position of independent mediator so to speak.

He seemed very reliable. He was a very nice person, drove a big car, very well dressed, and he supervised the job more or less from then on.

The man who was in charge of the construction work was a Mr. Fagan, and he supervised the work itself.

Senator BENNETT. When you say construction, did you have them do any more than apply the Guntex?

Mrs. HARTER. No, sir. They sandblasted the house.

Senator BENNETT. The house is a stucco house?

Mrs. HARTER. It is.

Mr. SIMON. Did you have any other problems with them?

Mrs. HARTER. With them?

Mr. SIMON. Yes.

Mrs. HARTER. Well, about 6 months later the finish started cracking and they were just little hairline cracks to start with and they thought if that is all it amounts to, considering all the mess and everything that would be all right but then the cracks started blistering, and getting larger, and chunks would fall out of the side of the wall, so I called the telephone number of the company that had put it on, the applicators of California, and the people who answered the phone said there was no such party there, so I called the bank to find out where they could be located and the bank said they couldn't give out any such information, to call the contractor's board, so I called the contractor's board, and told them what our problem was and they said the company's license had been revoked.

Mr. SIMON. Do you know who you talked to at the bank?

Mrs. HARTER. I do not. I asked for someone in the part of the bank that handled the FHA home improvements loans, so I talked to the man at the contractor's board and asked him if there was anything we could do and he said that once their license was revoked there was nothing we could do.

Mr. SIMON. That is, nothing that the contractor's board could do?

Mrs. HARTER. There was nothing we could do, and we asked—they said that the only thing they could do in a case of a disputed case like that was to revoke their license and that that had already been done.

So we asked then if we could file a complaint or a form or something, and they said no, there was nothing, so then I asked whether we would still have to keep paying on that thing, surely there was some place we could go, or somebody we could talk to, so I called the bank, or he told me to call the bank and I did.

That is the Bank of America at Broadway at Seventh, and I asked for an officer in the FHA home improvement loan department and I don't know the man's name, but I explained to him what our problem was, and that we wanted to locate the people or to find out what could be done, if anything, and I said that we had seen a letter from the bank and said, surely, if they investigated these things, and he said no, that all a firm had to do was present them with a legitimate license to do that work and they would give them a letter approving them, and that is all there was to it, so I asked if we couldn't do something, and he said—well, he said if we were financially able to we could hire a private attorney and hire investigators to try to locate the people and then he said there would be a considerable expense, of course, probably far more than the loan itself, so I still didn't realize that a person could be that way, without having any recourse whatever, so I finally asked them if there wasn't anything we could do, and he said no, and that is exactly the words he used.

He says, "Frankly, Mrs. Harter, if I were you, I would just keep up your payments and charge the whole thing up to experience."

Mr. SIMON. That is, the man at the bank told you that?

Mrs. HARTER. Yes. I had asked him what would happen if we simply didn't pay any more because we still owed nearly \$500 on it,

and he said then the bank would immediately take steps to collect, so we are still paying on it.

Mr. SIMON. What is the condition of the paint job now?

Mrs. HARTER. It has just kept on going from bad to worse. The chunks fall out. It is just falling apart. The whole house will have to be resurfaced and redone.

Senator BENNETT. Is paint breaking off any of the stucco underneath it or just the paint itself?

Mrs. HARTER. They sandblasted everything down to a point where there was nothing. You could run your hand over the side and it would come down like sand, so the so-called inspector came out and he said it would require a sealer, so they put on a sealer, but now as that comes off it goes down back to the sandy finish.

Senator BENNETT. It was all right.

Mr. SIMON. Was the inspector supposed to be an inspector of the California contractor's board?

Mrs. HARTER. He said he was a State inspector and he showed me a card, which gave him—I don't recall whether it was a State contractor's license or it was a State inspector for paints and mastics.

Mr. SIMON. Mr. Koontz, does the State of California have any such inspectors?

Mr. KOONTZ. No; we don't.

Mrs. HARTER. We really got took.

Mr. KOONTZ. He is probably an impostor.

Senator BENNETT. How long ago was that, Mrs. Harter?

Mrs. HARTER. June of 1952.

Senator BENNETT. That is too far back to even begin to try to find the imposter, unfortunately.

Thank you very much, Mrs. Harter. I wish we could point out some solution for you, but we hope you are pointing out one for us.

Mrs. HARTER. I hope so, too.

Senator BENNETT. Mr. Leo Regan.

Mr. Regan, will you be sworn, please? Do you solemnly swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. REGAN. I do.

TESTIMONY OF LEO REGAN, LOS ANGELES, CALIF.

Senator BENNETT. Will you take the chair and give the reporter your name and address?

Mr. REGAN. Leo C. Regan.

Mr. SIMON. Your address, Mr. Regan?

Mr. REGAN. 2001 Boca Avenue.

Mr. SIMON. Is that in Los Angeles?

Mr. REGAN. Los Angeles.

Mr. SIMON. Do you own your own home, Mr. Regan?

Mr. REGAN. Yes, sir.

Mr. SIMON. Where do you work, Mr. Regan?

Mr. REGAN. Western Brass Works.

Mr. SIMON. Did you have an experience a couple of years ago in a home improvement?

Mr. REGAN. In June—July 1953.

Mr. SIMON. Was that with the Al Craft Construction Co.?

Mr. REGAN. Yes, Al Craft Construction Co. in Hollywood.

Mr. SIMON. Were you going to add a room to your house?

Mr. REGAN. That is right.

Mr. SIMON. Would you tell us what happened, Mr. Regan?

Mr. REGAN. Well, we answered an ad in the paper regarding that home improvement, and they arranged an FHA loan for us, with the Bank of America, at the corner of La Brea and Melrose, in Los Angeles.

And the contracting company advertised them as being licensed and insured and we went to their offices and they had already arranged a loan at the bank and so we went to the bank and seen that Mr. Schmidt, who had charge of loans at that particular bank, and he gave us the loan, in other words.

Senator BENNETT. Did you execute the papers at the bank?

Mr. REGAN. I don't understand; the loan papers, you mean?

Senator BENNETT. The loan papers, the application—did these people who came to see you from the Al Craft Construction Co. bring some papers that you signed in your own home or did you go to the bank to sign the papers?

Mr. REGAN. We signed the loan papers at the bank. We signed the contract with the loan company for the room. I have that here.

Senator BENNETT. You signed that contract at your home?

Mr. REGAN. Yes; for \$1,130.

Senator BENNETT. You signed the note at the bank?

Mr. SIMON. Will you tell us what they told you when they came out to see you?

Mr. REGAN. Well, just to construct that room and finish the room for the sum of \$1,130.

Mr. SIMON. Did they do what they said they would do?

Mr. REGAN. They didn't. They went bankrupt and I was issued liens, or had liens filed against me, three of them, and to pay for materials and labor that they hadn't paid for and I had paid them cash when I got the loan.

Mr. SIMON. Did they do any work on your house?

Mr. REGAN. They did. They had it probably 75 percent finished. I finished the rest myself.

Mr. SIMON. And you had to pay the bank the full amount?

Mr. REGAN. Yes. We are making the payments. We are still—

Mr. SIMON. You are still paying it off?

Mr. REGAN. We are paying the loan off as due, but the thing that irks me. I had to pay some bills twice. I had paid the contractor cash and instead of paying for the materials, the lumber, the electric company came back and filed liens and I had to pay them in order to get the liens lifted on my property.

Mr. SIMON. And you are still paying off your notes at the bank?

Mr. REGAN. Still paying the notes off, but I can say—

Mr. SIMON. Did you sign a completion certificate?

Mr. REGAN. The room has never been completed. They never finished the room.

Mr. SIMON. Did you sign a completion certificate?

Mr. REGAN. No.

Mr. SIMON. Are you sure you didn't?

Mr. REGAN. I know I didn't. They had sent a letter to the better

business bureau without my permission, and that was before they even had the room half done. Maybe you would like to see that.

Mr. SIMON. Yes.

(Document handed to Mr. Simon.)

Mr. SIMON. This is a letter from the Al Craft Construction Co. to Mr. and Mrs. Regan and it says:

We have applied for membership in the better business bureau and have taken the liberty of giving your name as a customer for whom we have completed work. With kindest regards.

That was dated July 16, 1953, and you signed up with them on June 8, 1953.

Mr. REGAN. The room wasn't half done at that time that they stated that they had completed the work for me.

Mr. SIMON. A bank isn't supposed to give them the money, and I don't believe does, until they give the bank a completion certificate.

Mr. REGAN. The bank didn't give them the money. The bank gave me a check for the total, the \$1,130.

Mr. SIMON. They took you to the bank and you borrowed the full amount from the bank, is that right?

Mr. REGAN. That is right.

Senator BENNETT. Then you gave them the money?

Mr. REGAN. I turned the money over half an hour later.

Mr. SIMON. You gave them the money before they started working on the job?

Mr. REGAN. Yes. They had just started digging a foundation, and the bank—the man Schmidt, in charge of the loan department of the bank, he seemed to be in favor of me giving them the entire check. I asked him, should I give them half now and half on completion, and he says no, it is a good company, I know them, there is nothing wrong with giving them the whole check right now.

Like a fool, I gave them the whole check.

Mr. SIMON. Did they take you to that bank or had you done business with that bank before?

Mr. REGAN. I had never done business with the bank before. They recommended the bank and went in the bank and arranged with that man, that Schmidt, to give me the loan. In other words, they recommended me.

Mr. SIMON. They recommended you to the bank?

Mr. REGAN. Yes; Schmidt; and he recommended giving them the money, all the cash.

Mr. SIMON. They recommended that you go to the bank and then the bank recommended to you that you give them the cash right away?

Mr. REGAN. He inferred I should give it to them.

Mr. SIMON. What do you mean by "inferred"?

Mr. REGAN. He didn't definitely say, "Give it to them." I asked him should I give them all of it now or half now and half on completion and he said that knowing that company as being legitimate, reliable, and such that there would be no reason why I shouldn't give them the entire amount.

Mr. SIMON. Then they went bankrupt before they finished it?

Mr. REGAN. They went bankrupt before they finished it.

Mr. SIMON. What bank was that, Mr. Regan?

Mr. REGAN. Bank of America.

Mr. SIMON. What branch?

Mr. REGAN. Melrose and La Brea.

Mr. SIMON. The man's name was Schmidt?

Mr. REGAN. Schmidt.

Mr. SIMON. Is there anything else about the transaction that you think we ought to know?

Mr. REGAN. Well, that is about all as far as I am concerned. I went to a hearing, the bankruptcy hearing, and there was a great many others besides me caught in the same fix, hurt much worse than I was, but to me it was a lot of misrepresentations all the way along the line.

Senator BENNETT. That was a case in which you sought them out, You read the ad or saw the ad or television rather than they sending a salesman to you; is that right?

Mr. REGAN. We called them up and asked for an estimate to the room. They advertised and they sent a salesman out, and give us an estimate on the room. We signed a contract with them.

Senator BENNETT. Did you ever get another estimate? Did you attempt to find out what somebody else would have built that room for?

Mr. REGAN. No; we didn't. That was the first estimate we had to build the room.

Senator BENNETT. My wife also says I buy the first thing that people show me, too, but next time, perhaps, you will get at least two bids to make sure that you have got something to check against.

Mr. REGAN. I think as far as that goes, I have learned a lesson myself.

Senator BENNETT. Thank you very much, Mr. Regan. We appreciate your assistance.

This morning in the hearing we asked Mr. Adams, of the contractor's State license board, to give us samples of these guaranteed letters that had been furnished by Superior Construction Co. to its customers. These aren't guaranty letters. They are letters which promise—

Mr. SIMON. I have mentioned the first one promises the bonus and the second, if you read it carefully, says you won't get a bonus. It is used to assure them they will get a bonus.

Senator BENNETT. I will have to read it more carefully than that quick look, because it still looks pretty good on the surface, but I am sure there is a gimmick down within it.

Do you have anything else?

We will put these letters in the record as part of our investigation, (The material referred to follows:)

STATE OF CALIFORNIA,
DEPARTMENT OF PROFESSIONAL AND VOCATIONAL STANDARDS,
CONTRACTORS STATE LICENSE BOARD,
Los Angeles, September 2, 1954.

Subject: Gimmick letter of model home sales.

Mr. ROBERT SIMON,

Chief Counsel, Senate Committee on Banking and Currency.

DEAR SIR: Exhibit D indicates one of the earliest uses of subject-letter relative to bonus sales plan.

Exhibit A represents a later refinement of the same bonus agreement.

Cordially,

E. R. FORD,
Registrar of Contractors.
By E. R. ADAMS,
Investigator.

EXHIBIT A

SUPERIOR CONSTRUCTION Co.

GENERAL CONTRACTORS

LOS ANGELES, CALIF.

It is understood that for any sales made to prospective purchasers whose names we may furnish to the Superior Construction Co., we are to receive the sum of \$25 for services rendered. Superior Construction Co. agrees that they will not in any way commercialize this property or inconvenience the occupants by displaying or using as a model the construction performed on these premises. We understand that construction of a similar nature may be installed in this area at the discretion of Superior Construction Co.

It is hereby understood and agreed that any commitments, oral or written, pertaining to commissions to be paid to us by the Superior Construction Co., have no bearing whatsoever on the payments of this transaction and it is understood and agreed that payments will be made on their respective due dates in the amount as required as per the rate of the lending institution.

I (or we) do hereby acknowledge receipt of a copy of this letter.

(Signed) CLOYD W. KERR.

EXHIBIT D

SUPERIOR CONSTRUCTION Co.

GENERAL CONTRACTORS

BEVERLY HILLS, CALIF.

It is understood that for any sales made to prospective purchasers whose names we may furnish to the Superior Construction Co., we are to receive and will accept the sum of \$25 for services rendered. We understand that construction of a similar nature may be installed in this area at the discretion of Superior Construction Co.

It is hereby understood and agreed that any commitments, oral or written, pertaining to commissions to be paid to us by the Superior Construction Co., have no bearing whatsoever on the payments of this transaction and it is understood and agreed that payments will be made on their respective due dates in the amount as required, as per the rate of the lending institution.

I (or we) do hereby acknowledge receipt of a copy of this letter.

(Signed) LLOYD H. GATHERUM.

Senator BENNETT. We appreciate Mr. Adams' help in getting them to us.

In the next minute or two, we will recess these hearings until 10 o'clock tomorrow morning at the same place.

We will hear tomorrow Mr. Charles Whitechurch, a builder, of Las Vegas, Nev.; Mr. Joe E. Crawford, an ex-FHA employee from Denver, Colo.; a Mr. Hyman Rubinstein, a builder from Phoenix, Ariz.

Tomorrow afternoon we will hear five other homeowners who have had experience with builders similar to those we have heard this afternoon.

The hearing is recessed until 10 o'clock tomorrow morning.

(Whereupon, at 3:25 p. m., the committee recessed, to reconvene at 10 a. m., Friday, September 3, 1954.)

FHA INVESTIGATION

FRIDAY, SEPTEMBER 3, 1954

UNITED STATES SENATE,
BANKING AND CURRENCY COMMITTEE,
Los Angeles, Calif.

The committee met, pursuant to recess, at 10 a. m., Senator Wallace Bennett presiding.

Present: Senator Bennett, Messrs. Simon and Kenney.

Senator BENNETT. Ladies and gentlemen, we will begin the hearings this morning.

In addition to the three witnesses who are listed for this morning, a little later on we will hear from a Mr. Murray, whose initials we do not have at the moment, who is an employee of the Long Beach office of the FHA.

We will begin this morning's meeting by hearing Mr. Hyman Rubenstein, of Phoenix, Ariz.

Mr. Rubenstein, will you be sworn.

Do you solemnly swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF HYMAN RUBENSTEIN, WILLIAMS FIELD AIR BASE, PHOENIX, ARIZ., ACCOMPANIED BY JAMES E. FLYNN, COUNSEL

Mr. RUBENSTEIN. Yes, sir.

Senator BENNETT. Will you identify your counsel, please?

Mr. FLYNN. James E. Flynn, 419 Security Building, Phoenix.

Senator BENNETT. Will you identify yourself?

Mr. RUBENSTEIN. Hyman Rubenstein, 5760 North Central Avenue, Phoenix, Ariz.

Mr. SIMON. Mr. Rubenstein, how long have you lived in Phoenix?

Mr. RUBENSTEIN. Nine years. It is going to be 9 years Labor Day.

Mr. SIMON. And where did you live before you went to Phoenix?

Mr. RUBENSTEIN. Milwaukee, Wis.

Mr. SIMON. What business were you in in Milwaukee?

Mr. RUBENSTEIN. In the produce business.

Mr. SIMON. The produce business in Milwaukee?

Mr. RUBENSTEIN. Yes, sir.

Mr. SIMON. You gave up the produce business when you left Milwaukee, did you?

Mr. RUBENSTEIN. No. I was in the produce business for about 8 months in Phoenix.

Mr. SIMON. How did you happen to leave Milwaukee? Was it just that you wanted to go to the better climate of Phoenix?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. You went to Phoenix. When you got to Phoenix you went back into the produce business?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. How did you happen to leave the produce business after 8 months?

Mr. RUBENSTEIN. I just had a couple of tough deals.

Mr. SIMON. It wasn't very profitable?

Mr. RUBENSTEIN. That is right. I lost a lot of money.

Mr. SIMON. When was that, about 1947?

Mr. RUBENSTEIN. 1946.

Mr. SIMON. When did you go into the building business under FHA?

Mr. RUBENSTEIN. I am not sure. I think it was late in 1947, or 1948.

Mr. SIMON. Late in 1947 or 1948?

Mr. RUBENSTEIN. That is right. I think late in 1947. I am not sure about it.

Mr. SIMON. Did you build two housing projects at Air Force bases?

Mr. RUBENSTEIN. Yes, sir.

Mr. SIMON. And those were under FHA mortgages?

Mr. RUBENSTEIN. Yes, sir.

Mr. SIMON. Was one at Williams Field?

Mr. RUBENSTEIN. Yes, sir.

Mr. SIMON. Where is Williams Field?

Mr. RUBENSTEIN. About 34 miles from Phoenix.

Mr. SIMON. Was the other the Davis Monthan Air Base?

Mr. RUBENSTEIN. Yes, sir.

Mr. SIMON. Where is that airbase?

Mr. RUBENSTEIN. That is at Tucson, Ariz.

Mr. SIMON. What was the amount of the mortgage in the Williams Field Base?

Mr. RUBENSTEIN. We didn't have one mortgage. We had five mortgages.

Mr. SIMON. What was the total amount of the five mortgages? Was it \$3,324,100?

Mr. RUBENSTEIN. Yes, sir.

Mr. SIMON. When did you build the Williams Field Airbase project?

Mr. RUBENSTEIN. We started in May 10, 1950.

Mr. SIMON. When did you build the Davis Monthan Airbase?

Mr. RUBENSTEIN. We started, I think it was, February 1951. No; when did we close that project?

Mr. FLYNN. Sometime in 1952.

Mr. RUBENSTEIN. I am not sure of the day when we started in Davis Monthan, but I had my certification from the Air Force in October, I think, or November.

Mr. SIMON. October or November of 1950?

Mr. RUBENSTEIN. 1951.

Mr. SIMON. What was the amount of the mortgage at the Davis Monthan Airbase?

Mr. RUBENSTEIN. We have two mortgages there.

Mr. SIMON. What was the total of the two?

Mr. RUBENSTEIN. The total of the two was \$4,429,900.

Mr. SIMON. The total mortgages at the two airbases then were \$7,754,000?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. Now, what building experience had you had between 1948, after you left the produce business, and 1950 when you started to build these airbases or housing projects?

Mr. RUBENSTEIN. Well, first—my first experience was I built a couple of projects without FHA insurance.

Mr. SIMON. What were those projects?

Mr. RUBENSTEIN. I had built an arcade, a shopping arcade, and then I built four apartments.

Mr. SIMON. How big a job was the shopping arcade?

Mr. RUBENSTEIN. About \$28,000 or \$30,000.

Mr. SIMON. How big a project was the apartment building?

Mr. RUBENSTEIN. Also about \$20,000.

Mr. SIMON. Between \$20,000 and \$30,000?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. What other building experience had you had before?

Mr. RUBENSTEIN. Then I built nine duplexes. That was the first project that I went into the FHA.

Mr. SIMON. When was that?

Mr. RUBENSTEIN. I am not sure. I think it was late in 1947, or the early part of 1948.

Mr. SIMON. How big a job was that?

Mr. RUBENSTEIN. Nine duplexes. The mortgage was \$9,200 a duplex.

Mr. SIMON. About \$90,000?

Mr. RUBENSTEIN. About \$82,000 or \$83,000. We have sold them. We sold those duplexes, and we got \$14,500 apiece.

Mr. SIMON. What other building did you have before you went into the Air Force bases?

Mr. RUBENSTEIN. Then I went in partnership with Mr. Himmelstein, an excolonel, and Mr. Brochat.

Mr. SIMON. Mr. Himmelstein was an Air Force colonel?

Mr. RUBENSTEIN. Yes.

Mr. SIMON. What was his first name?

Mr. RUBENSTEIN. Louis.

Mr. SIMON. Col. Louis Himmelstein?

Mr. RUBENSTEIN. That is right. And then the other man Milton W. Brochat.

Mr. SIMON. How do you spell that?

Mr. FLYNN. B-r-o-c-h-a-t.

Mr. RUBENSTEIN. We went in a partnership where I had 50 percent, and they both got 50 percent out of the profits.

Mr. SIMON. What building did the partnership do?

Mr. RUBENSTEIN. We built 50 houses, two-bedroom houses, with a carport, and we were selling those at \$6,350.

Mr. SIMON. You mean \$6,350?

Mr. RUBENSTEIN. Yes, apiece. We had a \$5,950 mortgage on those. Senator BENNETT. Were those FHA financed?

Mr. RUBENSTEIN. Yes, under title—at that time I think it was title VI.

Mr. SIMON. Where were those houses?

Mr. RUBENSTEIN. We called it the Sheldon Manor project, and they were on 18th Street, between 18th and 19th, on Clarendon.

Senator BENNETT. In Phoenix?

Mr. RUBENSTEIN. Yes.

Mr. SIMON. What other building did you do before the Air Force bases?

Mr. RUBENSTEIN. Then we went in and built 49 houses with the T. Rugee Vista project, and we built a 3-bedroom house, with a carport, and we sold them for \$6,950.

Mr. SIMON. \$6,950.

Mr. RUBENSTEIN. That is right.

Mr. SIMON. How many of those did you build?

Mr. RUBENSTEIN. The mortgage was \$6,550 on those.

Mr. SIMON. How many of those did you build?

Mr. RUBENSTEIN. Forty-nine. We sold them in partnership, and then I built it personally while it was in the partnership, eight duplexes to sell if it is possible. Otherwise, we still own those same duplexes. Then we built 25 more houses in the partnership.

Senator BENNETT. Mr. Rubenstein, in all of these houses that you built, were you actually the general contractor? Did you supervise the actual building?

Mr. RUBENSTEIN. Yes, sir.

Senator BENNETT. You were just not the sponsor who arranged for the financing?

Mr. RUBENSTEIN. No, sir.

Senator BENNETT. You did not hire another general contractor?

Mr. RUBENSTEIN. No, sir. Never did.

Mr. SIMON. Was there any more building before the Air Force Base?

Mr. RUBENSTEIN. As I said, 25 more houses we built, and we sold them at \$7,950, brick houses, 1,365 feet, with 2 baths and carport.

Mr. SIMON. Had you ever done any other building?

Mr. RUBENSTEIN. No, sir.

Mr. SIMON. Then the biggest job you had before the Air Force bases was about an \$83,000 job; is that right?

Mr. RUBENSTEIN. No; I wouldn't say that.

Mr. SIMON. What was the biggest?

Mr. RUBENSTEIN. You take 50 houses at \$6,950 would be \$350,000.

Mr. SIMON. All right, \$350,000. That was your biggest job?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. Then you took on these 2 Air Force base jobs, 1 where the mortgage was \$3,324,000 and the other the mortgage was \$4,429,000?

Mr. RUBENSTEIN. Yes.

Mr. SIMON. A total of \$7¾ million.

Mr. RUBENSTEIN. Yes.

Mr. SIMON. Now, what was your cost of the Williams Field project? That is, I want to know all the costs that you paid everybody—your actual, total cost?

Mr. RUBENSTEIN. Including the 5-percent profit?

Mr. SIMON. I want to know everything you paid anybody. Did you pay anybody 5 percent?

Mr. RUBENSTEIN. No; we didn't pay, but the 5 percent—

Mr. SIMON. Mr. Rubenstein, I want the total amount you paid anybody. If you didn't pay anybody, we don't want it.

Mr. RUBENSTEIN. Well, our total costs on the Williams Field was \$3,388,000.

Mr. SIMON. What was the total cost at Davis-Monthan Airbase?

Mr. RUBENSTEIN. \$4,151,388.35.

Mr. SIMON. Does that include every cost that you had?

Mr. RUBENSTEIN. Every cost.

Mr. SIMON. Everything you paid?

Mr. RUBENSTEIN. Everything, not considering the 5-percent profit.

Mr. SIMON. Did you pay anybody the 5 percent profit?

Mr. RUBENSTEIN. Well, Mr. Simon, if you will notice, 5 percent is allowable——

Mr. SIMON. I am just asking you if you paid anybody.

Mr. RUBENSTEIN. No.

Mr. SIMON. Let me ask you this, Mr. Rubenstein: Do you own a home?

Mr. RUBENSTEIN. Yes, sir.

Mr. SIMON. Do you ever mow your lawn?

Mr. RUBENSTEIN. Sometimes.

Mr. SIMON. Does anybody ever pay you for mowing the lawn?

Mr. RUBENSTEIN. It is worth to me as much as I would pay the other fellow, maybe more.

Mr. SIMON. I am sure that is right. Does anybody pay you for it?

Mr. RUBENSTEIN. Sometimes it costs your life doing that, too.

Mr. SIMON. Does anybody pay you for it?

Mr. RUBENSTEIN. No. If you will notice in your new law, that the 1954—it says that the 5 percent profit, whatever the FHA says, is to be considered in the cost.

Mr. SIMON. Where do you find that?

Mr. RUBENSTEIN. In the 1954 new housing law, if you please.

Mr. SIMON. Do you have a copy of it?

Mr. RUBENSTEIN. I haven't got it. You should have it.

Mr. SIMON. The copy I have doesn't have that in it.

Mr. RUBENSTEIN. If you will, please, you will read that. The 5 percent—whatever the profit that is considered, and if it is done by sponsor and not by a contractor it is to be considered part of cost.

Mr. SIMON. Let me ask you this: You still own these projects; is that right?

Mr. RUBENSTEIN. Yes, sir.

Mr. SIMON. And you think——

Mr. RUBENSTEIN. I don't own them. I lease them. I have them under a lease.

Mr. SIMON. Do you own the buildings?

Mr. RUBENSTEIN. No. We don't own nothing. We are under a leasehold.

Senator BENNETT. Now, Mr. Rubenstein, do you mean to say you put \$7 million in there, and you don't own anything?

Mr. RUBENSTEIN. We own a leasehold.

Senator BENNETT. You own the building which is on leased land?

Mr. FLYNN. Just a minute.

Senator BENNETT. But you own the building.

Mr. FLYNN. Senator, maybe I can straighten that out. Under this Wherry project—

Senator BENNETT. We know how Wherry projects operate.

Mr. FLYNN. He is mixed up on leasehold.

Mr. SIMON. He has a leasehold on which he built some buildings.

Mr. FLYNN. They revert to the Government after 75 years.

Mr. SIMON. For 75 years you own them.

Mr. RUBENSTEIN. That is right.

Mr. SIMON. That is probably as long as any one of us will live.

Mr. RUBENSTEIN. If you will notice on the lease, it says at the time we put in improvements, the property becomes the property of the United States Government.

Mr. SIMON. At the end of the lease.

Mr. RUBENSTEIN. No.

Mr. SIMON. You leased the land from the Government for 75 years.

Mr. RUBENSTEIN. That is right.

Mr. SIMON. How much rent do you pay the Government?

Mr. RUBENSTEIN. On one lease we paid them \$100 for the entire lease.

Mr. SIMON. For the 75 years?

Mr. RUBENSTEIN. Yes.

Mr. SIMON. That is about \$1.33 a year; is that right?

Mr. RUBENSTEIN. Well, whatever it amounts to.

Mr. SIMON. \$100 for 75 years is about \$1.33 a year.

Mr. RUBENSTEIN. Yes.

Under the other lease—in other words, we have five leases on Williams Field, which we paid them \$500, and in Davis Monthan we have a lease which they have changed their regulations, and we are paying them \$100 a year for each lease.

Mr. SIMON. You pay \$200 a year rent at Davis Monthan?

Mr. RUBENSTEIN. That is right.

Senator BENNETT. And \$500 for 75 years?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. Which is \$6.66 a year at the other one?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. That lease goes for 75 years?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. That is all the rent you have to pay for the 75-year period?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. Do you pay any real-estate taxes to the State of Arizona?

Mr. RUBENSTEIN. No, sir.

Mr. SIMON. That is because you tell the State of Arizona that this is Government land and you don't have to pay taxes?

Mr. RUBENSTEIN. We don't have to tell them. That is their law.

Mr. SIMON. Then for 75 years you get all the net income from this building; is that right?

Mr. RUBENSTEIN. Yes, we do.

Mr. SIMON. Whatever the rents are you pay the janitor and you pay the coal bill, and whatever is left it is your money?

Mr. RUBENSTEIN. No. We are paying mortgages and paying interest, and we are putting away for replacement.

Mr. SIMON. Whatever is left the profit is yours?

Mr. RUBENSTEIN. It is in the corporation.

Mr. SIMON. You take it out if you want to?

Mr. RUBENSTEIN. No, we can't.

Mr. SIMON. You can't take it out?

Mr. RUBENSTEIN. No.

Mr. SIMON. You mean for the whole 75 years you can't take out any money?

Mr. RUBENSTEIN. I don't think we can take out any profit. We can't take it out as long as the FHA is in the picture.

Mr. SIMON. Would you be willing to agree right now that so long as this mortgage is unpaid you will not take any money out of the corporations?

Mr. RUBENSTEIN. I don't know. According to the FHA regulations we are not allowed.

Mr. SIMON. You just said that you couldn't. That isn't the case, but the Government would be delighted if you would agree to that right now.

Mr. RUBENSTEIN. I am not going to agree to something that we don't know the circumstances of the time what it is. We haven't taken out a dime.

Mr. SIMON. I just want to find out——

Mr. RUBENSTEIN. We have never taken out a dime.

Senator BENNETT. Do you draw a salary for the operation of those Wherry housing projects?

Mr. RUBENSTEIN. Since they were completed, and it takes my operation; I do. But during the construction, until they were completed, I have never drawn one dime out of them; as a salary, or as a profit, or anything at all.

Mr. SIMON. Let us get back to this other question. Are you willing to agree that until the FHA mortgage is paid off you won't take any money out of the corporation?

Mr. RUBENSTEIN. I have got a counsel sitting next to me and he has got to advise me if there is any agreement I am going to make. It is going to be with his advice.

Mr. SIMON. The fact is, there is no limitation on the amount of money you can take out of the corporation so long as you pay the interest and amortization on the mortgage. If you are willing to agree beyond that, I am sure the Government would be very happy to have such an agreement.

Mr. FLYNN. I believe there is a restriction in the article. You have to have permission from the Federal Housing Commissioner.

Mr. SIMON. Would your client be willing to agree to that?

Mr. FLYNN. Whatever restrictions are in the articles of incorporation.

Mr. SIMON. Will he agree he won't take any money out of these corporations without the consent of the Federal Housing Administration?

Mr. FLYNN. I don't know. That is up to him.

Mr. SIMON. The Government would be pleased to have that agreement.

Mr. FLYNN. In any event, we couldn't take anything out of the corporation except as set forth in the articles of incorporation, and any dividend that is cleared has to have permission of the FHA.

Mr. SIMON. Beyond paying interest on the mortgage and amortization, there is no restriction on his taking money out. If he is willing to agree not to take it out or not to take it out without the consent of the FHA, I am sure the Government would be pleased with such an agreement.

Mr. FLYNN. I certainly wouldn't recommend that he enter into such agreement.

Mr. SIMON. Now, Mr. Rubenstein, the cost of this project to you, including every time you paid everybody, was \$204,000 less than the mortgages on the \$71½ million of mortgages; is that right?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. The total costs were \$7,540,308; is that right?

Mr. RUBENSTEIN. You have got the figures in front of you.

Mr. SIMON. Is that right?

Mr. RUBENSTEIN. Yes. That is besides the 5 percent, not considering any salaries or 5-percent profit or anything that is allowed under the project analysis.

Mr. SIMON. Not including any profit to Hyman Rubenstein but including every cost that you paid everybody?

Mr. RUBENSTEIN. That we paid out actually; yes.

Mr. SIMON. You paid out \$7,540,308?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. The mortgage was \$7,754,000?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. And there is no personal liability on you to repay the mortgage, is there?

Mr. RUBENSTEIN. I don't think so.

Mr. SIMON. Are you personally responsible for paying the mortgage?

Mr. RUBENSTEIN. Are we?

Mr. FLYNN. We have a situation——

Mr. SIMON. I am asking him if he is personally responsible.

Mr. RUBENSTEIN. He can clarify whether I am or not.

Mr. SIMON. Do you know?

Mr. RUBENSTEIN. I don't know. He would have to advise me.

Mr. SIMON. Would you be willing to agree to be personally liable for the mortgage?

Mr. RUBENSTEIN. Just a second. He is trying to clarify this situation. Every State has got a five——

Mr. SIMON. There is only one Federal Government.

Mr. RUBENSTEIN. Yes, but at the same time every State has got a different law, where there are deficiencies.

Mr. SIMON. There is only one Federal Government, and the mortgage you made was a mortgage to the Federal Government, and what I am trying to find out is whether you personally agreed to repay the mortgage. Did you?

Mr. RUBENSTEIN. Why should I?

Mr. SIMON. I didn't ask you whether you should; I asked you whether you did.

Mr. RUBENSTEIN. I don't think we did.

Did we?

Mr. FLYNN. Do you want me to answer the question?

Mr. SIMON. I would like to know from Mr. Rubenstein.

Mr. RUBENSTEIN. It is a question he knows. He drew the papers. He should be the fellow to clarify it.

Mr. SIMON. Mr. Rubenstein, \$7¾ million is a lot of money. Don't you know whether you personally agreed to repay it?

Mr. RUBENSTEIN. I know they personally took my indemnity.

Mr. SIMON. For what? Wasn't that merely an indemnity to complete the building?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. My question to you which I have asked four or five times——

Mr. RUBENSTEIN. They took my personal indemnity to guarantee we will complete the buildings, which we took the risk for.

Mr. SIMON. What I have asked you four or five times, now, is whether you personally agreed to repay the mortgage?

Mr. RUBENSTEIN. That I wouldn't know, until my counsel would tell me whether I did or didn't.

Mr. SIMON. I will be glad to have you confer with your counsel and then tell us whether you personally agreed to repay the mortgage.

(There was a conference between Mr. Rubenstein and his counsel.)

Mr. RUBENSTEIN. Whatever liability I have I have signed the note and I have signed the mortgage.

Mr. SIMON. Personally?

Mr. RUBENSTEIN. Personally.

Mr. FLYNN. No.

Mr. RUBENSTEIN. Not personally, as president of the corporation.

Mr. SIMON. What I would like you now to tell me, and I hope I have made myself clear, Mr. Rubenstein, is whether Hyman Rubenstein, the man sitting in that chair, personally agreed to repay this money.

Mr. FLYNN. No, you didn't.

Mr. RUBENSTEIN. No, I didn't.

Mr. SIMON. Thank you.

Now, if at any time during the 75 years this project becomes unprofitable you can walk off and turn it back to the Government, is that right?

Mr. RUBENSTEIN. I don't know whether I can or not, and whether I would because there is no reason for becoming unprofitable as long as the Air Force has declared them as a permanent base and they are going to have permanent installations; there is no reason for, whatsoever, to have an unprofitable—a failure in those projects, if the Government lives up to their promise.

Mr. SIMON. I hope you are right, but if it does turn out to be unprofitable you can walk off and turn it back to FHA; is that right?

Mr. RUBENSTEIN. I want to ask you——

Senator BENNETT. Mr. Rubenstein, may I interrupt at this point?

Will you please answer the questions?

Mr. FLYNN. Just answer it.

Senator BENNETT. We enjoy the lecture, but we would appreciate an answer to our questions.

Isn't it true——

Mr. RUBENSTEIN. What was your question?

Senator BENNETT. Isn't it true that at any time that operation becomes unprofitable to you you can simply walk away from it and

turn it back and let the FHA guaranty take care of the people who supplied the mortgage money and you have absolutely no liability?

Mr. RUBENSTEIN. I think that is true.

Senator BENNETT. Thank you.

We are not concerned with what the Air Force may or may not do. We are concerned with the circumstances and conditions of the mortgage itself.

Mr. RUBENSTEIN. I also wish to state, Senator, that the way we operate our projects, we don't try to milk our projects. And we are doing a lot for the projects.

You take, for instance—

Senator BENNETT. Now, Mr. Rubenstein, we are interested in your answers to our questions, and if we are interested in knowing what your business operation policies are we will ask you about them.

Mr. RUBENSTEIN. Yes, sir.

Senator BENNETT. While Mr. Simon is busy, I would like to revert briefly to your statement that there is in the present law a provision which guarantees the builder a 5 percent profit. I am sure there is no such condition in the present law. I was a member of the committee that drafted the law, and I am equally sure that the conditions of the law that were passed in the spring of 1954, regardless of what they are, have no effect on your rights when you built this building in 1951 or 1952, so I want the record to show that when you built this building you had no right to assume that you could add a 5 percent profit to your costs.

Do you agree with me that that is the case?

Mr. RUBENSTEIN. Well, according to your statement, that is true.

Senator BENNETT. Will you agree with me that you stated yourself that you were referring to a 1954 law?

Mr. RUBENSTEIN. Yes.

Senator BENNETT. And obviously that law had no effect in 1950 and 1951 when you built the building.

I am completely sure, though I cannot turn to the page and give you the citation, that we did not write any automatic 5 percent profit into the law. We would be completely foolish to have done a thing like that.

Mr. RUBENSTEIN. Senator, if you please, you didn't write it grammatically but you stated it in the cost certification, that the builders' profit, which is considered in the commitment, whether it is a sponsor—if the sponsor does his own building, he is to be considered—the costs, certification, the sponsors' profit or the builders' profit should be considered in the sponsors.

Mr. SIMON. What you are talking about has nothing to do with what we are talking about here.

Senator BENNETT. That is right.

Mr. SIMON. What you are saying is that under the new law when a builder finishes a building he must certify to the Federal Housing Administration what his costs were.

Mr. RUBENSTEIN. That is right.

Mr. SIMON. Prior to this year when he finished he didn't have to tell them what his costs were. The Government never knew until we or somebody subpoenaed it. Now he has to file a certificate stating what his costs were, and if there is a builder's fee or a profit he has to put that in his cost certification, but there is nothing in there

that says that when you build a building yourself you are entitled to a profit on your own building. You built a house a couple of years ago for yourself; didn't you?

Mr. RUBENSTEIN. Yes, sir.

Mr. SIMON. Did anybody pay you a profit on the house you built yourself?

Mr. RUBENSTEIN. No, sir.

Mr. SIMON. Let us get back to this one.

As I understand it, you concur that any time you want in the 75 years you can walk away from it; is that right?

Mr. FLYNN. He answered that.

Mr. RUBENSTEIN. I answered that.

Mr. SIMON. And the costs were \$204,000 less than the mortgage?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. And during the 75 years whatever profit there is out of the venture, after paying interest and amortization, is yours?

Mr. RUBENSTEIN. Well, it is the corporation's.

Mr. SIMON. Who are the stockholders of the corporation?

Mr. RUBENSTEIN. Rubenstein.

Mr. SIMON. Now, do you have any dealings with FHA people in the Phoenix office?

Mr. RUBENSTEIN. We do business with them every day.

Mr. SIMON. You, personally?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. Do business with them, personally?

Mr. RUBENSTEIN. Well, through the mortgagees.

Mr. SIMON. I meant personal business. Did you hire the architect of FHA and pay him some money?

Mr. RUBENSTEIN. In 1949 when I was in partnership with Colonel Himmelstein and Major Bochat, we have bought a piece of property on 7th Street and Mitchell, for the purpose of building a shopping center. That was in February of 1949. About April we started to contemplate to get a plan for our shopping center. We started to look around and we knew of Mr. McDaniel, that was the chief architect that was in the FHA.

Mr. SIMON. Is that Leonard F. McDaniel?

Mr. RUBENSTEIN. Yes, sir.

Mr. SIMON. Chief architect in the Phoenix office of FHA?

Mr. RUBENSTEIN. Yes, sir. We approached him and we knew that he was doing some work at home.

Mr. SIMON. For other builders?

Mr. RUBENSTEIN. For other builders.

Mr. SIMON. Was that the routine practice in the Phoenix office?

Mr. RUBENSTEIN. Well, the office knew about it, and I understood the Washington office knew about it, too.

Mr. SIMON. You say the office knew about it. Who do you mean by that?

Mr. RUBENSTEIN. The Commissioner.

Mr. SIMON. Who is the Commissioner?

Mr. RUBENSTEIN. Was the Commissioner, Mr. Hare.

Mr. SIMON. How do you spell that?

Mr. RUBENSTEIN. H-a-r-e.

Mr. SIMON. What is his first name?

Mr. RUBENSTEIN. Richard.

Mr. SIMON. He knew about this?

Mr. RUBENSTEIN. Yes; everybody knew about it.

Mr. SIMON. Did you talk to him?

Mr. RUBENSTEIN. I didn't have to talk to him.

Mr. SIMON. How do you know Mr. Hare knew about it? I am not disputing it. We just want the proof that he knew it, too.

Mr. RUBENSTEIN. Well, it was known in the office that he does work outside of the FHA office.

Mr. SIMON. Is what you are saying it was common knowledge in Phoenix that he worked for builders?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. These were builders who had business with FHA?

Mr. RUBENSTEIN. Yes.

Senator BENNETT. Mr. Rubenstein, can you give us the name of any other builders for whom he did work?

Mr. RUBENSTEIN. I don't know.

Senator BENNETT. For whom he did work on the side?

Mr. RUBENSTEIN. I couldn't mention any others, but we have talked to him and he gave us a price of \$1,000 for drawing the plans and specifications for that shopping center.

Senator BENNETT. How much were you investing in the shopping center?

Mr. RUBENSTEIN. It would have cost us about \$120,000.

Senator BENNETT. Do you know what the usual percentage rate is on which an architect's fee is based? Is it less than 1 percent?

Mr. RUBENSTEIN. No. It would run to about 4 to 5 percent on that kind of a structure.

Mr. SIMON. So if you were really hiring an architect to draw your plans you would have to pay him \$6,000 or \$7,000 for those plans?

Mr. RUBENSTEIN. About four to five thousand.

Mr. SIMON. Four to five thousand?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. And you paid Mr. McDaniel \$1,000?

Mr. RUBENSTEIN. \$1,000.

Mr. SIMON. This was 5 or 6 years ago?

Mr. RUBENSTEIN. That was 1949.

Mr. SIMON. Five years ago?

Mr. RUBENSTEIN. Yes.

Mr. SIMON. Have you ever built the shopping center?

Mr. RUBENSTEIN. Well, you see——

Mr. SIMON. Have you ever built the shopping center?

Mr. RUBENSTEIN. I went out of partnership and my brothers have taken——

Mr. SIMON. Did anybody ever build the shopping center?

Mr. RUBENSTEIN. Let me explain. No; it wasn't built.

Mr. SIMON. It wasn't built. Thank you.

Mr. RUBENSTEIN. If you will let me explain what happened to it, then you can be enlightened.

Senator BENNETT. We are only interested in whether or not it was built.

I would like to ask you another question: Did Mr. McDaniel ever deliver you a complete set of plans and specifications upon which you could have built it? What did Mr. McDaniel deliver you for \$1,000?

Mr. RUBENSTEIN. He delivered me a complete set of plans and specifications; yes, sir. Complete.

Mr. SIMON. You built a home yourself, didn't you?

Mr. RUBENSTEIN. Yes, sir.

Mr. SIMON. Who did you get to draw plans for the home?

Mr. RUBENSTEIN. Mr. McDaniel.

Mr. SIMON. Did anybody else work on those plans?

Mr. RUBENSTEIN. My son helped him with it.

Mr. SIMON. What did you pay Mr. McDaniel for those plans?

Mr. RUBENSTEIN. He got \$1,000 for the plans and specifications and supervision after he goes from—in other words, when he went home every day he had to pass by my house and he would stop every day and check with everything that was going on and he supervised it until the final.

Mr. SIMON. How much did that house cost?

Mr. RUBENSTEIN. I think my house cost me close to \$55,000 or \$60,000.

Mr. SIMON. How much would you have had to pay a regular architect for that?

Mr. RUBENSTEIN. About four or five thousand dollars, at least, for that kind of a plan.

Mr. SIMON. So that had you got the real services of an architect you would have had to pay far more than that?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. Doesn't that lead you to the conclusion Mr. McDaniel didn't do what an architect should have done in these cases, and you were just paying him \$2,000?

Mr. RUBENSTEIN. No, sir; he did as much as any architect would do for me and more, for less.

Mr. SIMON. Of all the architects in Phoenix or in Arizona, how does it happen to be that when you have these plans for a shopping center that you don't build, or plans for your own home, that you go to the architect who is the same man who has to pass on the plans for these FHA projects that you present?

Mr. RUBENSTEIN. Well, this was just a purely savings deal in order to save three or four—six or seven thousand dollars, and get just as much out of it.

Senator BENNETT. Mr. Rubenstein, did you employ other architects for these other projects that you testified you built before you built the Wherry housing projects?

Mr. RUBENSTEIN. No, sir.

Senator BENNETT. You had no architects on those?

Mr. RUBENSTEIN. No, sir.

Mr. SIMON. How did you build these houses—the duplexes and the houses without an architect?

Mr. RUBENSTEIN. I would go up to the draftsman, another architect, and he would show me some of his plans, and I would pick out a plan of a duplex or plan of a house, that we could buy it for \$40 or \$50 and that is what we would use. That was purely a way of building economy buildings.

Mr. SIMON. Did you have a draftsman on your own house?

Mr. RUBENSTEIN. No.

Mr. SIMON. Why didn't you go to one of these economy draftsmen and buy plans for \$40 or \$50 for your own house?

Mr. RUBENSTEIN. My house—my son has started to sketch what he wanted, and in order to get a good set of plans, I hire—it wasn't so much as the plans. It was the main thing, is the supervision of the building.

Mr. SIMON. Now, Mr. Rubenstein, did you subsequently decide to build some houses under section 213 of the Housing Act?

Mr. RUBENSTEIN. Yes, sir.

Mr. SIMON. How many houses?

Mr. RUBENSTEIN. 155.

Mr. SIMON. 155 houses?

Mr. RUBENSTEIN. Yes, sir.

Mr. SIMON. Since you have read the Housing Act of 1954 so carefully, I take it you are familiar with the prior Housing Act, the provisions of this section 213?

Mr. RUBENSTEIN. I wan't much familiar with that section 213.

Mr. SIMON. You didn't know about section 213?

Mr. RUBENSTEIN. I wasn't familiar too much with 213.

Mr. SIMON. Did you ever read that section of the Housing Act before you decided to build 155 houses under section 213?

Mr. RUBENSTEIN. Yes. They gave me the regulations, and I read it through, that we had to organize a cooperative.

Mr. SIMON. You knew you had to organize a cooperative?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. Did you know that the statute said "a nonprofit cooperative"?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. You knew that. You knew this section 213 says that in addition to the mortgages insured under section 207 of this title, the Commissioner is authorized to insure mortgages, as defined in section 207 (a) of this title which cover property held by a nonprofit corporation, or nonprofit trust, organized for the purpose of construction of homes for members of the corporation, or for beneficiaries of the trust?

Did you know that?

Mr. RUBENSTEIN. Yes, sir.

Mr. SIMON. Did you organize a nonprofit corporation?

Mr. RUBENSTEIN. Yes, sir.

Mr. SIMON. Who were the cooperators in that nonprofit corporation?

Mr. RUBENSTEIN. I was one.

Mr. SIMON. Who were the others?

Mr. RUBENSTEIN. My son, Harry M. Rubenstein, J. W. Payne.

Mr. SIMON. Who is J. W. Payne?

Mr. RUBENSTEIN. My son-in-law.

Mr. SIMON. Your son-in-law?

Mr. RUBENSTEIN. That is right.

Clyde Williams.

Mr. SIMON. Who is Clyde Williams?

Mr. RUBENSTEIN. He is my superintendent, construction superintendent. And Robert Miller.

Mr. SIMON. Who is Robert Miller?

Mr. RUBENSTEIN. He was one of my salesmen.

Mr. SIMON. And you 5 were the 5 cooperators who formed this nonprofit corporation?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. Did any of you intend to live in these houses?

Mr. RUBENSTEIN. Mr. Miller owns one, and Mr. Williamson owns one.

Mr. SIMON. How about the other three?

Mr. RUBENSTEIN. None of them.

Mr. SIMON. None of the other three ever intended to live there?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. Did you also have a building corporation?

Mr. RUBENSTEIN. Yes.

Mr. SIMON. And who were the stockholders in the building corporation?

Mr. RUBENSTEIN. Well, there was not a building corporation—Rubenstein Construction Co., which is my firm, have contracted with the cooperative to sell the cooperative at \$8,350 a house, complete, which includes land, buildings, all expenses, everything that pertains to expense of a house.

Senator BENNETT. Mr. Rubenstein, was the Rubenstein Construction Corp organized to build these particular units?

Mr. RUBENSTEIN. No.

Senator BENNETT. Or had it been in existence before then?

Mr. RUBENSTEIN. Yes. Rubenstein Construction Co. is the one that owned the Wherry housing projects.

Mr. SIMON. So we have this nonprofit corporation, composed of you and your son and your son-in-law, and your superintendent and your salesmen?

Mr. RUBENSTEIN. Yes.

Mr. SIMON. They enter into a contract with the Rubenstein Construction Co. to build the houses; is that right?

Mr. RUBENSTEIN. Yes, sir.

Mr. SIMON. How much is Rubenstein Construction Co. making on the houses?

Mr. RUBENSTEIN. I don't know yet. We didn't figure up yet how much we made.

Mr. SIMON. Didn't you tell us in Washington your estimate was you would make \$150,000?

Mr. RUBENSTEIN. I don't know. I told you maybe \$150,000, maybe more.

Mr. SIMON. Maybe \$150,000 and maybe more?

Mr. RUBENSTEIN. That is what I told you.

Mr. SIMON. And that contract was between the Rubenstein Construction Co. and this nonprofit corporation?

Mr. SIMON. Controlled by you and your son and your son-in-law and your superintendent and your salesman?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. Now, under section 213, in order to promote cooperatives, the Government provides there for financing the construction of the building as well as the ultimate sale; is that right?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. Under the regular provisions of the law providing for the sale of houses, the builder has to do his own financing of the construction; is that right?

Mr. RUBENSTEIN. Yes, we did.

Mr. SIMON. Did the Government finance it under section 213?

Mr. RUBENSTEIN. No; they didn't finance it until the final. We financed our own.

Mr. SIMON. What was the amount of the Government mortgage?

Mr. RUBENSTEIN. We had 3 cooperatives, and I think all 3 was—well, it was 46—one cooperative at 46, at \$8,350.

Mr. SIMON. Forty-six houses at \$8,350?

Mr. RUBENSTEIN. Yes.

Mr. SIMON. That is the amount of the mortgage?

Mr. RUBENSTEIN. Yes; and the second cooperative had 52, at \$8,350, and the third cooperative, 57, at \$8,350.

Mr. SIMON. They were all at \$8,350, then?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. That is the amount of the mortgage?

Mr. RUBENSTEIN. Yes.

Mr. SIMON. The Rubenstein Construction Co. was going to sell them to the nonprofit corporation at \$8,350?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. How much did the nonprofit corporation sell them to the homeowners for?

Mr. RUBENSTEIN. For \$8,350.

Mr. SIMON. You know the law provides that there should be a 5-percent downpayment?

Mr. RUBENSTEIN. Well, we didn't see anything in the law that does provide for downpayment, and it is done every day in the week right now.

Mr. SIMON. Where?

Mr. RUBENSTEIN. Right in Phoenix. There is thousands of them built, with no downpayment. Just send for the mortgage money.

Mr. SIMON. You don't think there is anything in the law—

Mr. RUBENSTEIN. In fact, they are building for the mortgage and selling them for the mortgage, and they are taking a discount of 7 percent of the mortgage by selling the mortgage.

Mr. SIMON. What you have done here is you got a mortgage for \$8,350?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. And you contemplate a profit of \$1,000 or more out of that mortgage

Mr. RUBENSTEIN. We didn't know how much we were going to make.

Mr. SIMON. Didn't you tell us right now \$150,000 or more?

Mr. RUBENSTEIN. When we took the project on we didn't know how much we were going to make. Maybe we would have lost money, but it was just a question of a condition of—

Mr. SIMON. As of today, you contemplate making a profit of \$1,000 on the \$8,350 mortgage; is that right?

Mr. RUBENSTEIN. Maybe \$1,000, maybe more.

Mr. SIMON. All right. And the homeowner gets in there without paying anything?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. You just let them move in?

Mr. RUBENSTEIN. That is right. He pays for his insurance policy for 3 years.

Mr. SIMON. Do you mean fire insurance?

Mr. RUBENSTEIN. That is right, and the first year, for 1 year FHA insurance. That is what it amounts to.

Mr. SIMON. So when the homeowner moves in he has no investment in the house?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. And you have made a profit out of it?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. And the Federal Government is the only one who has any responsibility?

Mr. RUBENSTEIN. That is right.

Mr. SIMON. Now, do you think it was a moral thing for you to do, to be hiring the architect, and if it was the common practice in Phoenix, do you think it was a moral thing for the builders in Phoenix?

Mr. RUBENSTEIN. Well—

Mr. SIMON. Let me finish my question.

To be hiring the architect of FHA who had to approve the plans you gave FHA, and paying him money for doing work for you?

Mr. RUBENSTEIN. As I explained to you before, it was just a question of saving money.

Mr. SIMON. Do you think it was a moral thing, Mr. Rubenstein?

Mr. RUBENSTEIN. I didn't see anything wrong about it, because he has been doing it for other people. He was a good man, and it was just a question, and I understood that the Washington office has gave him permission.

Mr. SIMON. Who told you that?

Mr. RUBENSTEIN. Well, he has told us.

Mr. SIMON. He told you that?

Mr. RUBENSTEIN. Yes.

Mr. SIMON. Did he tell you who in Washington gave him permission?

Mr. RUBENSTEIN. No. He told me the Washington office gave him permission. In fact—

Mr. SIMON. Did you know that chapter 7 of the FHA Employees Handbook expressly prohibits FHA employees dealing with builders?

Mr. RUBENSTEIN. No. I did not know anything of such thing.

Mr. SIMON. You didn't know that?

Mr. RUBENSTEIN. But during the time when he was drawing my plans, I heard something came out of Washington to have everybody that is employed in the office to stop doing any business with builders, and so forth, or do any other work, and I heard about it, and I asked him, and he says "Well, it came out and I am in the midst of drawing this plan, so I told Washington and they says to go ahead and finish it."

Mr. SIMON. Did he say who he told?

Mr. RUBENSTEIN. No.

Mr. SIMON. That is all I have.

Senator BENNETT. Do you have any questions?

Mr. KENNEY. No.

Senator BENNETT. That is all, Mr. Rubenstein. Thank you very much.

Mr. FLYNN. We have to catch a plane. Is that all, Mr. Simon?

Mr. SIMON. Yes.

Senator BENNETT. Is Mr. Joe E. Crawford in the room?

Mr. CRAWFORD. Yes, sir.

Senator BENNETT. Mr. Crawford, will you please be sworn:

Do you swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF JOE E. CRAWFORD, DENVER, COLO.

Mr. CRAWFORD. I do.

Senator BENNETT. Will you identify yourself to the reporter, please?

Mr. CRAWFORD. Joe E. Crawford.

Mr. SIMON. Will you give the reporter your address, Mr. Crawford?

Mr. CRAWFORD. 1248 Albion, Denver, Colo.

Mr. SIMON. Do you live in Denver or in Kansas City?

Mr. CRAWFORD. No, I live in Denver.

Mr. SIMON. Didn't they—

Mr. CRAWFORD. I was in Newton, Kans., at the time I was subpoenaed.

Mr. SIMON. Were you employed by the Federal Housing Administration in Denver?

Mr. CRAWFORD. Yes, sir.

Mr. SIMON. From when until when?

Mr. CRAWFORD. I don't recall exactly, but I was sent to Denver from the Oklahoma City office, I believe it was in 1943, and I resigned June 15, 1951, I believe it was.

Mr. SIMON. During that period of time what were your duties?

Mr. CRAWFORD. I was construction examiner.

Mr. SIMON. What were the duties of a construction examiner?

Mr. CRAWFORD. To figure the replacement costs of buildings.

Mr. SIMON. And that replacement cost was the basis on which the FHA mortgages were made?

Mr. CRAWFORD. Not necessarily.

Mr. SIMON. Didn't the law provide that the FHA mortgage could not exceed 90 percent of the estimated replacement cost?

Mr. CRAWFORD. Well, I don't know about that. We wouldn't have anything to do with that in the architectural section.

Mr. SIMON. Did you know that the law provided that an FHA mortgage could not exceed 90 percent of the replacement cost?

Mr. CRAWFORD. I don't recall that.

Mr. SIMON. You don't know that?

Mr. CRAWFORD. Possibly so. I don't remember.

Senator BENNETT. Why, Mr. Crawford, did you think the FHA would be interested in figuring the replacement cost if it had no relationship to the law or to the operation of this particular program?

Mr. CRAWFORD. Well, I think because it possibly gave them assurance of the value—more of an assurance of the value of the property.

Senator BENNETT. And you figure replacement costs for many years without knowing you were actually doing it because the law provided—

Mr. CRAWFORD. I guess I did.

Senator BENNETT. All right.

Mr. SIMON. Do you know a man named Zurcher?

Mr. CRAWFORD. Yes.

Mr. SIMON. Do you know a man named Whitchurch?

Mr. CRAWFORD. Yes.

Mr. SIMON. That is C. L. Whitchurch and Otto Zurcher?

Mr. CRAWFORD. Yes.

Mr. SIMON. Zurcher ran a restaurant in Denver, did he?

Mr. CRAWFORD. Yes.

Mr. SIMON. Is that called Lloyds Tavern?

Mr. CRAWFORD. I believe it is called Lloyds of Denver.

Mr. SIMON. Did Mr. Zurcher and Mr. Whitchurch do some FHA building?

Mr. CRAWFORD. Yes, sir.

Mr. SIMON. Did Mr. Zurcher or Mr. Whitchurch or either one of them ever pay you any money?

Mr. CRAWFORD. In Washington I believe that I said that they didn't. However, I would like to change that statement because I found later in my records where I did receive, I believe, two checks from them. One of them is a check for \$500.

Mr. SIMON. What was the other one?

Mr. CRAWFORD. The other one was a check from Mr. Whitchurch in the amount of \$300, and that was a loan.

Mr. SIMON. Did you ever pay it back?

Mr. CRAWFORD. Yes, sir.

Mr. SIMON. Whose check was the \$500 check?

Mr. CRAWFORD. I believe it was on Economy Homes.

Mr. SIMON. What record did you have in which you found that?

Mr. CRAWFORD. Well, just going through some records at home.

Mr. SIMON. What records?

Mr. CRAWFORD. Notations that I had made.

Mr. SIMON. Do you have those records with you?

Mr. CRAWFORD. No, I don't have.

Mr. SIMON. Are you saying unequivocally now that the only money you ever got from either Zurcher or Whitechurch, or both of them, was the \$500 check on Economy Homes, and a \$300 loan which you repaid?

Mr. CRAWFORD. That is all I recall. However, there might have been something where they paid—gave me a check to pay for some blueprints or something for them. I don't recall.

Mr. SIMON. Mr. Crawford, you were working for the Federal Government, weren't you?

Mr. CRAWFORD. Right.

Mr. SIMON. And you knew there was a regulation that provided that Government employees couldn't have dealings with the people they were doing business with?

Mr. CRAWFORD. That is true. However, I had permission from the chief underwriter at the time to do some work for this builder.

Mr. SIMON. Was that permission oral or in writing?

Mr. CRAWFORD. Oral.

Mr. SIMON. Is he alive?

Mr. CRAWFORD. Yes, sir.

Mr. SIMON. What is his name?

Mr. CRAWFORD. Louis S. Dienis, I believe.

Mr. SIMON. How do you spell that?

Mr. CRAWFORD. D-i-e-n-i-s, I believe.

Mr. SIMON. You say he gave you permission to work for these people?

Mr. CRAWFORD. He gave me permission to make a change on their plans which when the Economy Housing program came out, it had a strong revision and all we added—he gave me permission to add storage cubicle on the back of the house.

Mr. SIMON. How much were you paid for that particular work?

Mr. CRAWFORD. As far as that particular work, I don't think I was ever paid. I don't remember. It took me a couple of hours to do it.

Mr. SIMON. You are saying he gave you permission to make these changes on their plans for which you were not paid?

Mr. CRAWFORD. That is right.

Mr. SIMON. Did he give you permission to do work for them for money, for pay?

Mr. CRAWFORD. No, sir.

Mr. SIMON. Then you had no permission?

Mr. CRAWFORD. That is right.

Mr. SIMON. To take money from them?

Mr. CRAWFORD. That is right.

Mr. SIMON. That being the case, wouldn't you recall the extent to which you had taken money from these people?

Mr. CRAWFORD. Well, I did one house plan for them, was all, with various elevations on it.

Mr. SIMON. Did Mr. Whitchurch frequently come over to your apartment or you go over to his apartment in the evening and work on plans that he was going to submit to FHA?

Mr. CRAWFORD. I don't recall Mr. Whitchurch coming to my apartment over maybe 2 or 3 times, and I never did go to his apartment. As a matter of fact, I didn't even know where he lived for a long time.

Mr. SIMON. You very carefully say you don't recall his being there more than 2 or 3 times?

Mr. CRAWFORD. That is right.

Mr. SIMON. Are you studiously intending not to say he wasn't there more than 2 or 3 times?

Mr. CRAWFORD. He may have been to my apartment more than 2 or 3 times, because we were friends, had always been friends, and still are friends. He was my best man when I was married.

Mr. SIMON. Who was your best man?

Mr. CRAWFORD. Whitchurch.

Mr. SIMON. How many times did he pay you money for doing work on FHA plans?

Mr. CRAWFORD. The only time that I remember is the check for \$500 for the work.

Mr. SIMON. Are you carefully saying again that, not that there weren't any other instances but merely that you don't remember any other?

Mr. CRAWFORD. I don't remember any others; no, sir.

Mr. SIMON. Could it be that there were 8 or 10 or 12 others?

Mr. CRAWFORD. No, sir; there couldn't be.

Mr. SIMON. You are not certain there wasn't more than one; is that right?

Mr. CRAWFORD. I certainly don't recall any, and I don't have anything to show it.

Senator BENNETT. I would like to refer briefly back again to the \$300. What was the purpose of the loan?

Mr. CRAWFORD. Well, Senator, I had a 1941 Chevrolet, that when I went to work for the Federal Housing Administration in Oklahoma City they told me I had to have a car. I didn't have one so I bought a new 1941 Chevrolet. I worked for them 6 months without traveling. They told me to buy it because I would have to travel to make inspections. I worked 6 months without traveling at all. I wore that car out. In fact, I turned it over four times out of Pueblo, Colo., on FHA business. I didn't have any insurance on it. I didn't turn in a claim to the Government. I paid it myself. I borrowed the money to pay it. That was during the war. It took me quite a while to get that car fixed. I was without transportation for months. I finally traded it in on another car, and it was a wreck, and I had to have transportation to make inspections for the FHA, and I didn't have the money, I didn't have any money in the bank, I didn't have a bank account.

Mr. SIMON. That was before you went to work for FHA in Denver, wasn't it?

Mr. CRAWFORD. No. That was when I was in Denver, when I had the wreck.

Mr. SIMON. When did you get to Denver?

Mr. CRAWFORD. I was sent there, I believe it was in 1943.

Mr. SIMON. Do you recall who paid for your wedding breakfast?

Mr. CRAWFORD. Yes, I do.

Mr. SIMON. Who was that?

Mr. CRAWFORD. Mr. Whitchurch and Mr. Zurcher, and I did not know that until I went to pay for it myself.

Mr. SIMON. They did pay for it?

Mr. CRAWFORD. That is what I understand; yes, sir.

Mr. SIMON. Do you recall an incident in Lloyd's Tavern one night when you had a conversation with Mr. Ross in the presence of Mr. Whitchurch about FHA plans?

Mr. CRAWFORD. I recall being in the tavern one night with Mr.— Mr. Ross was there. There was no special meeting or occasion.

Mr. SIMON. Do you recall saying to Mr. Ross, in effect, "Why didn't he get smart and hire you to work on his plans and he would have less trouble with FHA"?

Mr. CRAWFORD. I did not say that.

Mr. SIMON. You are certain of that?

Mr. CRAWFORD. I am certain of that.

Mr. SIMON. Now, when you were in Washington you were asked if Whitchurch or Zurcher had ever paid you any money.

Mr. CRAWFORD. And I said "No."

Mr. SIMON. You said unequivocally "No"?

Mr. CRAWFORD. That is right.

Mr. SIMON. Now you want to change that to indicate that they paid for the wedding breakfast and that they gave you \$500 on Economy Homes, and that they loaned you \$300?

Mr. CRAWFORD. They didn't loan me. Chuck Whitchurch loaned me \$300 and I told them in Washington that the wedding breakfast was paid for.

Mr. SIMON. Is there any other extent to which you want to change your unequivocal "No" that they didn't pay you any money?

Mr. CRAWFORD. No.

Mr. SIMON. Except for that, is there any time they ever paid you any money?

Mr. CRAWFORD. No, sir.

Mr. SIMON. None?

Mr. CRAWFORD. None.

Mr. SIMON. I want to make clear that you are not merely saying that you don't recall any other time, but that there was no other time they paid you any money?

(Mr. Crawford shook his head negatively.)

Senator BENNETT. Maybe I should remind you at this time, Mr. Crawford, that you are testifying under oath.

Mr. CRAWFORD. I realize that, sir.

Senator BENNETT. And that any discrepancy, any proven discrepancy in your testimony might suggest an investigation of possible perjury.

Mr. CRAWFORD. That is true. I realize that.

Mr. SIMON. Was there any other instance when they paid you money?

Mr. CRAWFORD. No, sir.

Mr. SIMON. Thank you, sir.

Senator BENNETT. Do you have anything?

Mr. KENNEY. No.

Senator BENNETT. Thank you, very much, Mr. Crawford.

Mr. CRAWFORD. I wonder if I could make a statement?

Mr. SIMON. Would you like to hear Mr. Whitchurch's testimony first?

Mr. CRAWFORD. It doesn't pertain to his testimony at all.

Mr. SIMON. He is going to testify.

Mr. CRAWFORD. I would like to tell the committee who I did the favors for, and who I did most for when I worked for FHA.

Mr. SIMON. What do you mean by "favors"?

Mr. CRAWFORD. The favors that I did were for FHA. I went to work for them in 1941. They sent me to 5 or 6 different offices in the United States. We were paid 5 or 6 dollars per diem when you couldn't even get a hotel room for that.

Mr. SIMON. Was there anybody who compelled you to work for FHA?

Mr. CRAWFORD. No, not to go to work for them.

Mr. SIMON. Was there anybody who compelled you to keep working for them?

Mr. CRAWFORD. Not necessarily, but it was during the war and you remember during the war you had to keep your job. You were frozen to your job.

Mr. SIMON. Do you mean to say you couldn't have left FHA during the war?

Mr. CRAWFORD. I don't think so.

Senator BENNETT. How old are you?

Mr. CRAWFORD. Forty-two.

Senator BENNETT. During the war you were from 30 to 32?

Mr. CRAWFORD. That is right, and I was married and had three children. I wasn't 4-F. I thought I was doing a job better than I could do in the service. That is why I didn't enlist in service. I was sent to Los Angeles one time, I can recall, for a 3-week period in the Los Angeles area, and the Los Angeles office got me a reservation that cost \$6 and I was getting \$6 a day per diem. I wrecked my automobile without any insurance. Did I make a claim to the Government? No,

but in that car was a camera that belonged to the Government. Two years later they wrote me and told me to pay for the camera, because it was broken.

Senator BENNETT. Did the Government require you to wreck your car?

Mr. CRAWFORD. No; I didn't make a claim either.

Another thing—

Mr. SIMON. Mr. Crawford, I don't think this has any bearing on this, but what we are talking about is the money that people paid you working on FHA plans, and if we are going to go into a question of who suffered the greatest hardship during the war, I will be glad to compare mine with yours any day. I don't think it has any bearing on this.

Mr. CRAWFORD. I lost my family over it.

Mr. SIMON. When you said you wanted to talk about those for whom you did the greatest favors during your FHA service, I assumed you were going to give us the names of other people.

Mr. CRAWFORD. No. I was going to tell you I thought the greatest favor I did for anybody was for FHA, and I think if you will look back at my record you will find that I did 2 or 3 times as much work as the fellow sitting next to me for the same amount of money.

Mr. SIMON. Does he by any chance maybe think he did 2 or 3 times as much work as you?

Mr. CRAWFORD. Look at the reports in the Denver office. That is all I want you to do.

Senator BENNETT. You believe that when you took that job there should have been a limitation on your loyalty?

Mr. CRAWFORD. I certainly do.

Senator BENNETT. And, therefore, because you did—we will accept your statement you did the best job of which you were capable—that therefore that excuses you from breaking certain other FHA rules.

Mr. CRAWFORD. No. I didn't say it excuses me for that. I just wanted to tell you what I felt like, if they paid the men for the amount of work they do in the Government, they wouldn't have to go out and do outside work to make money to live on.

Mr. SIMON. Mr. Crawford, when I went in the Navy in 1942 I got exactly one-third the salary I was making the week before, practicing law, and I am sure there are at least 15 million people in the United States who made a sacrifice during the war, too.

Senator BENNETT. I think that is all, Mr. Crawford. Thank you very much.

We will call now Mr. Charles Whitchurch, of Las Vegas, Nev.

Mr. Whitchurch, will you be sworn?

Do you solemnly swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF C. L. WHITCHURCH, LAS VEGAS, NEV.

Mr. WHITCHURCH. I do.

Senator BENNETT. Will you take that chair? Talk carefully into the microphone, and identify yourself for the reporter, please.

Mr. WHITCHURCH. C. L. Whitchurch; business address, 1819 Industrial Road, Las Vegas, Nev.

Mr. SIMON. Mr. Whitchurch, did you previously do some building in Denver?

Mr. WHITCHURCH. I did.

Mr. SIMON. That was in partnership with Otto Zurcher?

Mr. WHITCHURCH. It was a partnership and corporation; yes, sir.

Mr. SIMON. I gather you were the builder and he was the restaurateur who put up some money to finance the operations?

Mr. WHITCHURCH. I was the builder.

Mr. SIMON. He helped finance it?

Mr. WHITCHURCH. That is correct.

Mr. SIMON. He was in the restaurant business?

Mr. WHITCHURCH. That is correct.

Mr. SIMON. Did you have Mr. Joe Crawford help you on these plans, going over to his house in the evening?

Mr. WHITCHURCH. Yes, sir.

Mr. SIMON. About how many times did you go over to his house to have him work on your plans?

Mr. WHITCHURCH. Oh, I don't know; possibly 8 or 9 times.

Mr. SIMON. About 2 weeks ago you said 15 times; is that changed?

Mr. WHITCHURCH. I don't know; 15 times. I don't know exactly how many times I went over there.

Mr. SIMON. At that time he was working for FHA?

Mr. WHITCHURCH. Yes, sir.

Mr. SIMON. What were his duties at FHA?

Mr. WHITCHURCH. He was in the architectural section.

Mr. SIMON. Did he in FHA have to work on the plans that you submitted to FHA?

Mr. WHITCHURCH. I don't know whether he had to or not. I imagine that he did in some cases.

Senator BENNETT. Were some of those plans on which you and he worked in his apartment plans which you later submitted to FHA?

Mr. WHITCHURCH. Yes, sir.

Mr. SIMON. I gather that you testified here that it was—these aren't your exact words, but in substance it was a little easier to get them through if you worked on them with him in advance?

Mr. WHITCHURCH. I don't recall the exact words, and I don't believe it spells it out quite that clearly.

Mr. SIMON. What is the substance of what you said in that respect?

Mr. WHITCHURCH. The substance and the intent of it was that I got my plans and specs, and I got them more economically and faster and more efficiently than I would have, than what I get from others.

Senator BENNETT. Why did you go in the first place to Mr. Crawford? How did you happen to go to Mr. Crawford?

Mr. WHITCHURCH. I can't answer that, Senator. I was asked that question before. I don't recall who originally introduced me to Joe Crawford.

Senator BENNETT. Do you know whether or not there were others who had gone to Mr. Crawford under the same circumstances?

Mr. WHITCHURCH. That I do not know.

Senator BENNETT. Do you remember whether you approached Mr. Crawford or Mr. Crawford approached you?

Mr. WHITCHURCH. I am sure I contacted Mr. Crawford.

Senator BENNETT. And before you contacted him you must have had some assurance that he would undertake your operation. You must have had some evidence that he had either done it for someone else, or he was open to a proposition.

Mr. WHITCHURCH. I will assume that that is true; yes. It was possibly——

Mr. SIMON. Mr. Whitchurch, were these questions asked you and did you make these answers on August 10, 1954, in Washington?

Question. Didn't the thought occur to you that it might kind of grease the wheels a little bit——

that is, referring to hiring Mr. Crawford.

Mr. WHITCHURCH. That question was asked me; yes, sir.

Mr. SIMON. And your answer:

It made it faster, because I didn't have to wait 2 or 3 weeks, or whatever time it takes. When I get these plans from Joe——

Joe means Crawford?

Mr. WHITCHURCH. That is right.

Mr. SIMON (continuing):

I would go to his apartment and stay right with him. Sometimes we would work until 2 or 3 o'clock in the morning with them.

Question. As a matter of fact, after he had worked the plans over, and you submitted them to FHA, there wasn't much more for him to do as a part of his FHA job?

Mr. WHITCHURCH. He put it down on the paper right in the first place.

Question. In other words, he knew all about it before he was reviewing them, or checking them on behalf of FHA?

Mr. WHITCHURCH. Certainly.

Question. That is what it amounts to.

Mr. WHITCHURCH. Sure. He knew how to put them on there and you don't have all those requirements.

Question. It did, to use my term, grease the wheels a little bit?

Mr. WHITCHURCH. It greased the wheels, yes. That is just as good.

Is that right?

Mr. WHITCHURCH. Yes.

Mr. SIMON. Is that an accurate statement of what happened?

Mr. WHITCHURCH. Yes.

Mr. SIMON. How much did you pay Mr. Crawford in total?

Mr. WHITCHURCH. I had our accountant go back through this, as I told you I would do, and we find that we paid him \$300—I paid him \$300. That was a loan.

Senator BENNETT. Did he pay it back?

Mr. WHITCHURCH. I don't have any record of where it was paid back. However, he must have paid it back or I would have asked him for it. Or I would have gotten—had him do me other work as a credit balance to it.

Mr. SIMON. There is a big difference there between his paying it back and doing some work and getting a credit for it.

Mr. WHITCHURCH. One or the other would have happened. I don't have any record of where it came back into my account.

Senator BENNETT. We can assume on the basis of your account that while you made it as a loan it has not been paid back.

Mr. WHITCHURCH. I don't know how you want to assume it, Senator.

Senator BENNETT. Don't you as a businessman keep your accounts in balance?

Mr. WHITCHURCH. As I say, we show no place where it came back. Senator BENNETT. I think we have belabored that enough.

Mr. SIMON. What is the next one you paid him?

Mr. WHITCHURCH. We have a payment in there for architectural fees of \$500.

Mr. SIMON. What is the date of that?

Mr. WHITCHURCH. I don't think I have the date on that, and there was another one for \$12.91, I believe, that was charged to blueprinting. I imagine that was where possibly Joe had picked up—Crawford had picked up some blueprints for me and I had reimbursed him.

Mr. SIMON. All right.

Mr. WHITCHURCH. I believe the \$500 check was some time in 1950, and the check for \$300 was also in 1950.

Mr. SIMON. All right. What else?

Mr. WHITCHURCH. That is all.

Mr. SIMON. That is the only money you ever paid him?

Mr. WHITCHURCH. That I ever paid Joe Crawford.

Mr. SIMON. Did Mr. Zurcher or your companies ever pay him any more money?

Mr. WHITCHURCH. When I speak of the \$500 and the \$12 check, I am speaking of the company.

Mr. SIMON. Mr. Whitchurch, I am not going to read this whole transcript, but just taking a couple of questions, after long discussion of these things, were you asked this question in Washington on August 10, 1954:

Question. Let me ask you this: You indicated at various times you did employ Crawford on altering these plans. That your payments ran anywhere from \$100 to \$300 for his services. Would they ever run as much as \$500 at one time?

Mr. WHITCHURCH. It is possible.

Question. Could they ever run as much as \$1,000?

Mr. WHITCHURCH. I don't think so. If they did I don't recall.

Question. Well taking your figures, and let us take a fairly low average, suppose, we will say, \$200 is halfway between \$100 and \$300, and if you used the services 15 different times that would be a total of about \$3,000 that you paid Crawford for services performed during the time you were building those homes in Aurora. Does that sound about right to you?

Mr. WHITCHURCH. That sounds about right.

Is that true?

Mr. WHITCHURCH. I think I can clarify that. That statement is true.

Mr. SIMON. Is that true? You did make that statement?

Mr. WHITCHURCH. I made that statement.

Mr. SIMON. Are you now saying the statement is untrue?

Mr. WHITCHURCH. I am not saying the statement is untrue. Perhaps I can clarify it a little bit.

During that time, Mr. Simon, Joe was associated, through friendship or whatever you would want to classify it, with another architect, and we gave him some money.

Mr. SIMON. You gave who some money?

Mr. WHITCHURCH. Harold—

Mr. SIMON. Fredericksen?

Mr. WHITCHURCH. Fredericksen.

Mr. SIMON. You gave it to him to give to Crawford?

Mr. WHITCHURCH. No, not to give to Crawford, because at that time, I believe that Fredericksen was—Joe was doing some floor

plans and Fredericksen was doing some of the elevation work. It was sort of a joint——

Mr. SIMON. You said you gave Crawford about \$3,000; is that true?

Mr. WHITCHURCH. During that time we were assuming; isn't that true? As I recall it, we kept assuming and assuming that that was true and I agreed to that assumption.

Mr. SIMON. You were the one who gave the testimony. Nobody told you what happened.

Mr. WHITCHURCH. I mean you were asking me to assume, I believe, weren't you?

Mr. SIMON. Well, we weren't asking you to assume anything. Didn't you say in Washington that you paid him a total of about \$3,000?

Mr. WHITCHURCH. Didn't we assume that he got about \$3,000? We finally assumed that.

Mr. SIMON. I don't think we assumed anything. You said you hired him about 15 times, and you paid him each time.

Mr. WHITCHURCH. No; I didn't say we hired him 15 times. Didn't I say I went to him about 15 times?

Mr. SIMON. At his home.

Mr. WHITCHURCH. Yes.

Mr. SIMON. Yes. And you ended up by saying that you paid him roughly \$3,000, and there is a big difference between \$800 and \$3,000.

Senator BENNETT. Maybe at this point we should ask Mr. Whitchurch if he has any record of how much money he paid to Mr. Fredericksen, is it?

Mr. WHITCHURCH. I don't have that record, and we did try from our register, the accountant tried to get some line on the particular record, and he doesn't have the canceled checks at this time. I was asked to forward them to the committee. When we do locate them we will.

Mr. SIMON. How about cash? Did you ever pay him in cash?

Mr. WHITCHURCH. No. I didn't pay him in cash, and I didn't have any cash at that time.

Mr. SIMON. Did you ever pay Mr. Crawford anything in cash?

Mr. WHITCHURCH. No, sir. I mean, no, sir; by that I might have loaned him \$10 or something like that. In most cases I am sure he always gave it back to me. It would be on a fishing trip or something like that.

Mr. SIMON. Are you saying now that the total amount that you ever paid him was \$800?

Mr. WHITCHURCH. That is the only record that I can find or produce at all.

Mr. SIMON. That wasn't my question. My question was whether you are saying that the total amount you ever paid him was \$800?

Mr. WHITCHURCH. I will have to say "Yes" to that.

Mr. SIMON. And then you were wrong in Washington when you said it was about \$3,000?

Mr. WHITCHURCH. I was wrong because it seemed to me we were trying to assume there, trying to establish a figure.

Mr. SIMON. How could you be off so far between \$800 and \$3,000?

Mr. WHITCHURCH. Well, we started with \$150, \$100, \$1,000, and finally we assumed it was \$3,000, and let it go at that, didn't we?

Mr. SIMON. I don't know. I wasn't there. I am trying to find out how you could go off so far between \$800 and \$3,000.

Mr. WHITCHURCH. Didn't I tell you also I would have to check the record after that to let you know for sure?

Mr. SIMON. Yes. What I am trying to find out now is how you could be off so far between \$800 and \$3,000.

Mr. WHITCHURCH. If you take what we gave Harold Fredericksen—I don't know what that was, and I won't commit what it was, but it was some money.

Senator BENNETT. May we assume, Mr. Whitchurch, that when you were thinking in terms of approximately \$3,000, you had in mind the money that went to Mr. Crawford through Mr. Fredericksen?

Mr. WHITCHURCH. No; I don't know whether I had that in mind or not, Senator. I don't think so. I had no reason to think that.

Senator BENNETT. Do you now think that some of the money—without putting any specific amount on it—that some of the money you paid to Mr. Fredericksen you expected to go to Mr. Crawford?

Mr. WHITCHURCH. No; I didn't do that, and I don't think so because Harold Fredericksen is an architect and builder himself.

Senator BENNETT. Did you testify—

Mr. WHITCHURCH. He wouldn't give his money away.

Senator BENNETT. Did you testify a minute ago there was an arrangement between him and Mr. Fredericksen under which he drew the elevations and Mr. Crawford drew the floor plans?

Mr. WHITCHURCH. There was an arrangement.

Senator BENNETT. Don't you expect Mr. Crawford would be paid for drawing the floor plans?

Mr. WHITCHURCH. That could be or possibly they could interchange their work back and forth together.

Senator BENNETT. I asked you if you knew any builders for which Mr. Crawford did any work, and you said you didn't. Now you say Mr. Fredericksen is an architect and builder. Do you want to change your testimony?

Mr. WHITCHURCH. Mr. Fredericksen is just a conventional builder. I don't believe that Fredericksen ever builds under FHA.

Senator BENNETT. That is not the point. It is not necessary to build under FHA. My question was whether you now want to tell us that you understand that Mr. Crawford had done work for Mr. Fredericksen, who is an architect and builder?

Mr. WHITCHURCH. Yes. I would like to change it to that because I thought we were dealing strictly with FHA.

Senator BENNETT. Do you know of any other architects or builders who may not have been building under FHA for whom Mr. Crawford did any work?

Mr. WHITCHURCH. I do not.

Senator BENNETT. How do you happen to know about Mr. Fredericksen?

Mr. WHITCHURCH. Well, I have talked with Fredericksen and collaborated with him, worked with him when we were putting our plans together.

Senator BENNETT. In other words, you had employed Fredericksen?

Mr. WHITCHURCH. Yes. We had employed Fredericksen.

Mr. SIMON. And you understood when you employed him that some of the work he was doing for you would actually be done by Mr. Crawford?

Mr. WHITCHURCH. They were working together on them—let me put it that way—on the same plan.

Mr. SIMON. How much did you pay Fredericksen?

Mr. WHITCHURCH. He is a pretty high-class fellow.

Mr. SIMON. How much did you pay him?

Mr. WHITCHURCH. I don't know.

Senator BENNETT. He has testified he is trying to get that information and does not have it available.

Mr. WHITCHURCH. I don't have it. But Harold Fredericksen is expensive.

Senator BENNETT. You also paid for Mr. Crawford's wedding breakfast?

Mr. WHITCHURCH. I did.

Mr. SIMON. Were you in Lloyd's Tavern one night when Mr. Crawford told Mr. Ross—do you know Mr. Ross?

Mr. WHITCHURCH. I know Mr. Ross.

Mr. SIMON. What is his first name?

Mr. WHITCHURCH. Forrest.

Mr. SIMON. Were you in Lloyd's Tavern one night when Mr. Ross was told by Mr. Crawford that he ought to hire Crawford to draw his plans, and he might get a little better break out of FHA?

Mr. WHITCHURCH. I recall the meeting, but I certainly wasn't there when that conversation took place, if it took place.

Mr. SIMON. Let me again refresh your recollection by what you said on August 10, 1954, in Washington.

Mr. WHITCHURCH. All right.

Mr. SIMON. You were asked this question:

I want you to think back, Mr. Whitchurch. I would say probably some time prior to 1950, probably the early stages of this project. Do you recall an incident when you and Mr. Ross were in Lloyd's Tavern and Mr. Ross approached you and suggested to you that if you were to hire him to draw or change or alter plans for you, you might get a better break out of FHA?

Mr. WHITCHURCH. He didn't make that assertion to me, but I think he made it to someone else.

Question. It was made in your presence?

Mr. WHITCHURCH. When Joe would get smart with me—you know I was going to get him—I told him many times I would.

Question. Did he make such an assertion to Ross in your presence?

Mr. WHITCHURCH. I heard them arguing. They were having an argument there, and, of course, I worked around Lloyd's a little bit in the evenings, too, quite a bit. I never stuck around when they started to talk about their private affairs, but I knew exactly what they were talking about, business, so I just excused myself. I remember the meeting very well.

Question. Do you remember that incident when Crawford made that approach to Ross?

Mr. WHITCHURCH. Yes.

Were those questions asked you and did you make those answers?

Mr. WHITCHURCH. The last part of it, the very last sentence I don't recall making that answer; no, I don't.

Mr. SIMON. Of course, that is the important part. Are you prepared to say that you did not make that answer to that question?

Mr. WHITCHURCH. No, I am not prepared, because evidently I did.

Mr. SIMON. You were under oath in Washington?

Mr. WHITCHURCH. That is right.

Mr. SIMON. If you did make that answer to that question, is it true or false?

Mr. WHITCHURCH. If I made that answer it is true.

Mr. SIMON. It is true?

Mr. WHITCHURCH. It is true.

Mr. SIMON. Did you hear Mr. Crawford say that to Mr. Ross?

Mr. WHITCHURCH. That is awfully difficult for me to answer.

Mr. SIMON. Is it more difficult today than it was on August 10, 1954?

Mr. WHITCHURCH. No, not at all.

Mr. SIMON. You said there, if this transcript is correct, that you remembered the evening very well.

Mr. WHITCHURCH. I do. I remember it very well.

Mr. SIMON. Did Mr. Crawford say that night to Mr. Rose what I have just read from the transcript?

Mr. WHITCHURCH. I imagine so. I will have to say yes.

Mr. SIMON. Now, do you know a man named Williams?

Mr. WHITCHURCH. Neal Williams; yes, sir.

Mr. SIMON. What was his job at this period?

Mr. WHITCHURCH. He worked for the FHA.

Mr. SIMON. What was his job with FHA?

Mr. WHITCHURCH. He was in the architectural section also.

Mr. SIMON. What did he do in the architectural section?

Mr. WHITCHURCH. I don't know, other than process cases as others.

Mr. SIMON. Did you ever pay him any money?

Mr. WHITCHURCH. Yes, sir; I paid him some money.

Mr. SIMON. How much?

Mr. WHITCHURCH. I don't know how much, about \$1,500.

Mr. SIMON. What was the \$1,500 for?

Mr. WHITCHURCH. For the construction of a model house for the Denver Home Show.

Mr. SIMON. Do you know a man named Baldwin?

Mr. WHITCHURCH. John Baldwin; yes, sir.

Mr. SIMON. He worked for FHA?

Mr. WHITCHURCH. That is right.

Mr. SIMON. Did you or Zurcher, your partner, ever give him a fox fur?

Mr. WHITCHURCH. My partner gave him a fox fur for Christmas.

Mr. SIMON. For his wife, I take it?

Mr. WHITCHURCH. That is right.

Senator BENNETT. Do you know, Mr. Whitchurch, whether as a result of a conversation that took place in the tavern Mr. Ross did in fact employ Mr. Crawford?

Mr. WHITCHURCH. I don't believe he ever employed him at all, before or after that; no.

Senator BENNETT. You don't know that?

Mr. WHITCHURCH. I don't know that he did.

Mr. SIMON. I have no more questions.

That is all, Mr. Whitchurch. Thank you.

Senator BENNETT. Mr. Crawford, would you return to the chair, please?

TESTIMONY OF JOE E. CRAWFORD, DENVER, COLO.—Resumed

Senator BENNETT. Remember that you are still under the effects of the oath that you took earlier this morning.

Mr. SIMON. Did you hear the testimony of Mr. Whitchurch about your working with Fredericksen on plans?

Mr. CRAWFORD. Yes, sir.

Mr. SIMON. Did you collaborate, working with Fredericksen on this plan?

Mr. CRAWFORD. Yes, sir.

Mr. SIMON. You did the floor plans and he did the architectural work; is that right?

Mr. CRAWFORD. I did the floor plans and he did the elevations; put it that way.

Mr. SIMON. He did the elevations?

Mr. CRAWFORD. That is right.

Mr. SIMON. What projects were those on?

Mr. CRAWFORD. That was only on one house.

Mr. SIMON. Which one?

Mr. CRAWFORD. On the house that we did for Zurcher and Whitchurch. They only had one floor plan.

Mr. SIMON. How much did you get paid for that?

Mr. CRAWFORD. I told you a little while ago there was a check for \$500, the only money that I got paid for the plans. There was a check for \$300 for a loan.

Mr. SIMON. Did Fredericksen ever pay you anything?

Mr. CRAWFORD. No, he didn't. Not on that plan.

Mr. SIMON. On anything?

Mr. CRAWFORD. Oh, yes.

Mr. SIMON. What did Fredericksen pay you?

Mr. CRAWFORD. Fredericksen paid me—I don't remember—I believe it was in 1948 or 1949, I think around \$300, but not at one time. Maybe \$5 one time, \$6 another, or like that, and I talked to Mr. Fredericksen and he had records showing about \$300.

Senator BENNETT. Was this work you did for Fredericksen on FHA projects?

Mr. CRAWFORD. No.

Mr. SIMON. During the period of 1946 to 1951, did you have any other income other than your Government salary?

Mr. CRAWFORD. Well, in 1949 and 1950 I believe was when the plans for Whitchurch were, and then in 1951, right before I left FHA, and since I left FHA, I drew plans.

Mr. SIMON. Whom did you draw plans for before you left FHA?

Mr. CRAWFORD. Well, really, gentlemen, just like a postman that takes a walk on his day off. When I go home to work at night I sit down and make sketches of plans, trying to improve my own knowledge of architecture because I am not an architect at all.

Senator BENNETT. It is one thing, Mr. Crawford, for you to practice at your home and it is another thing, in view of the FHA rule for employees, for you to be working for consideration outside of your FHA employment; isn't it?

Mr. CRAWFORD. That is right; yes, sir.

Senator BENNETT. And you are telling us now that you did considerable work for which you were compensated after hours?

Mr. CRAWFORD. No. I am not saying that I did considerable work that I was compensated for.

Senator BENNETT. You have told us you did enough work so that Mr. Fredericksen paid you approximately \$300.

Mr. CRAWFORD. That is right. I don't know whether that was over a period—I think that is all he ever paid me.

Senator BENNETT. Did you work for any other architects?

Mr. CRAWFORD. No, sir.

Mr. SIMON. Let us approach it from the other end. From 1946 until you left FHA you got \$300 from Fredericksen, \$300 from Whitchurch—

Mr. CRAWFORD. That was a loan.

Mr. SIMON. A loan he says you didn't repay.

Mr. CRAWFORD. I am sure that I did.

Mr. SIMON. Regardless of that fact, that \$300, plus \$500 from Economy Homes, which was Mr. Whitchurch's company.

Mr. CRAWFORD. Right.

Mr. SIMON. And plus \$12.91 he says he found a check for.

Mr. CRAWFORD. I am pretty sure that was for plans.

Mr. SIMON. Did you have any other income other than your Government salary from 1946 until the time you left FHA?

Mr. CRAWFORD. I believe in 1950—I believe it was in 1950 I was approached by—I believe in 1950 I was approached by a fellow by the name of Earl Schaefer, who is a builder for the Spur Development Co. about some plans, and I agreed to get some plans for him, and I employed another fellow, and I don't know the fellow's name. I will get it and furnish it to the committee if they want, and I was paid as well as I can remember \$750 for that. However, those plans were never used by FHA, never came in the office.

Mr. SIMON. Did the man who paid you the \$750 do business with FHA?

Mr. CRAWFORD. Yes.

Mr. SIMON. He did?

Mr. CRAWFORD. That is right.

Senator BENNETT. How much did you pay the other man whom you employed?

Mr. CRAWFORD. I don't have a record of that, sir.

Senator BENNETT. Is it safe to say that you made some profit on the transaction?

Mr. CRAWFORD. I think possibly I did.

Senator BENNETT. That you paid the draftsman possibly less than you were paid?

Mr. CRAWFORD. I think I did.

Mr. SIMON. Is there any other instance, while you were with FHA, that you had outside income from anybody who did business with FHA?

Mr. CRAWFORD. I don't recall. There may have been. I don't know. I believe that Cleo Young, a builder, used a couple of my plans. I don't remember whether that was after I left FHA or before I left FHA. I know I have drawn some plans since I left FHA for him.

Senator BENNETT. You heard Mr. Whitchurch testify with respect to the conservation you had with Forrest Ross and earlier, as I remember your conversation, you denied that that took place.

Mr. CRAWFORD. I did not say that if he would get me to draw his plans that I could help him with FHA.

Senator BENNETT. Did you ever draw any plans for Mr. Ross?

Mr. CRAWFORD. No, sir; I never did.

Mr. SIMON. Mr. Crawford, apart from the wedding breakfast, did any builder doing business with FHA ever give you any gifts?

Mr. CRAWFORD. Oh, yes. I have received several bottles of whisky.

Mr. SIMON. A gift of the value of, say, \$25 or more?

Mr. CRAWFORD. Yes. I think one builder gave me, for a wedding present, a little portable radio.

Mr. SIMON. Any other gifts of a value of \$25 or more?

Mr. CRAWFORD. And another builder gave my wife a vacuum sweeper.

Mr. SIMON. Any other gifts of a value of \$25 or more?

Mr. CRAWFORD. No, sir.

Mr. SIMON. Mr. Crawford, was it common practice for the employees in the Denver office of FHA to do work for builders for pay?

Mr. CRAWFORD. Not to my knowledge.

Mr. SIMON. As far as you know, were you the only one who did it?

Mr. CRAWFORD. I think so.

Mr. SIMON. Did you know about Williams doing some work for Mr. Whitchurch?

Mr. CRAWFORD. Yes, sir.

Mr. SIMON. You did know about that?

Mr. CRAWFORD. Yes; I knew that. That was building a house. That wasn't doing any designing or drawing or anything.

Mr. SIMON. Did Mr. Williams do any other work that you know of for builders that he got paid?

Mr. CRAWFORD. Not to my knowledge; no, sir.

Mr. SIMON. As far as you know, was the money that you got that we talked about here this morning, and the \$1,500 that Williams got the only money that FHA employees in Denver ever received?

Mr. CRAWFORD. As far as I know.

Senator BENNETT. That is all. Thank you, Mr. Crawford.

At this point we will call Mr. William D. Murray, who is an employee of the Long Beach office of FHA.

Mr. Murray, will you be sworn?

Do you solemnly swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MURRAY. I do.

TESTIMONY OF WILLIAM D. MURRAY, JR., LOAN REPRESENTATIVE, FEDERAL HOUSING ADMINISTRATION, LONG BEACH, CALIF.

Senator BENNETT. Will you sit down, sir, and give your name, your home address, and your office capacity at FHA to the reporter.

Mr. MURRAY. William D. Murray, Jr. I am a loan representative for the Federal Housing Administration, assigned to the Long Beach office. My home address is 6015 East Wardlow Road, Long Beach.

Mr. SIMON. Mr. Murray, how long have you been with the Federal Housing Administration?

Mr. MURRAY. Nineteen years.

Mr. SIMON. How long have you been in the Long Beach office?

Mr. MURRAY. Two and a half years, almost three.

Mr. SIMON. Prior to that where were you stationed?

Mr. MURRAY. In Los Angeles.

Mr. SIMON. How long were you in Los Angeles?

Mr. MURRAY. Approximately a year and a half, sir.

Mr. SIMON. During that year-and-a-half period that you were in Los Angeles did you have any jurisdiction over title I home repair loans?

Mr. MURRAY. To a certain extent; yes, sir.

Mr. SIMON. In that connection did you have any problems with the Enterprise Construction Co.?

Mr. MURRAY. Yes; I did.

Mr. SIMON. Would you tell the committee briefly what those problems were?

Mr. MURRAY. Well, to put it briefly, I could say that it followed the pattern of the testimony of the homeowners that were here yesterday.

Mr. SIMON. Did you have any experience with Enterprise Construction Co. in effect blackmailing homeowners not to complain to FHA because the homeowner had also violated the law by getting a kickback or something like that?

Mr. MURRAY. Yes, sir. We had an example of that in San Diego area, which came under my jurisdiction.

Mr. SIMON. Would you tell the committee about that, Mr. Murray.

Mr. MURRAY. We had a homeowner who was approached by a representative of this company, using their home as a model, going to reside it, special factory price, lifetime guaranty, and the lady who incidentally was a divorcee—not a divorcee but was separated, called her husband back to the house for the purpose of discussing this matter, and his signature was obtained to the loan documents.

He agreed that that was a pretty good proposition, and they decided to go ahead with it. Subsequently, this homeowner contacted the San Diego office of FHA for the purpose of inquiring further into this—into the benefits she will obtain from this loan that she was to make.

Senator BENNETT. Was this before or after she signed the documents?

Mr. MURRAY. This was after.

Senator BENNETT. After?

Mr. MURRAY. Yes.

We pointed out the fallacy of this bonus plan to her, and she decided then that she wasn't going to do any business, but from the time that she came into the office she went back home the job was completed.

Mr. SIMON. Do you know how long previously she had first signed the contract?

Mr. MURRAY. Just the previous evening.

When we learned of the fact that this model home approach was used, it was always our policy to talk with the principals of the companies that were using such a promotional scheme, and in this instance we brought it to the attention of one of the managing principles of the company in Los Angeles and they were a little bit amazed, so they said that this was going on and they would look into it.

Subsequently, the manager of the company presented to the Federal Housing Administration a statement from this lady in her writing

saying that all the charges she had made against this company were made in a fit of anger because they had not supplied a little bit of a canopy over her house, and that is what primarily she was interested in getting, and as soon as they delivered that she would be satisfied.

Well, the director of the Federal Housing Administration in San Diego thought otherwise, and so did I, that perhaps a little bit of pressure may have been applied, so we went out to see this lady and her husband, and subsequently had a conference in San Diego office of FHA with the homeowner, husband and wife, the director, and myself, at which time she burst into tears and did say—and subsequently I believe signed a statement, that the manager had approached her the very next day after she had made a complaint to us and pointed out to her the warning contained on the application, and stressed the point that she had also signed this application and that she was guilty as the company was in perpetrating any fraud, and if she didn't recall her complaint to the FHA this manager would see that she was prosecuted for violation of FHA regulations.

Mr. SIMON. He was going to prosecute her?

Mr. MURRAY. No. If he was to be prosecuted he was going to bring her into it as a party to the transaction, and he was going to arrange to have the trial held some distance away from her home, which meant she would have to travel back and forth from one point to another, with all her family and children.

Mr. SIMON. Did he infer that he could arrange where the trial was going to be held?

Mr. MURRAY. Yes.

Mr. SIMON. And as a result of that pressure on the woman she wrote the statement that he gave you, saying she didn't mean to be complaining?

Mr. MURRAY. Which was more or less a statement absolving this Enterprise Construction Co. of any wrongdoing.

Senator BENNETT. Can you give us the approximate date in which this experience happened?

Mr. MURRAY. I believe it was in early 1952, but it is documented by statements we have in our file.

Mr. SIMON. And he went to see her the day after you talked to him?

Mr. MURRAY. That is correct.

Mr. SIMON. And she came to you the very day the work was done, which was the day following the signing of the contract?

Mr. MURRAY. If I remember the facts, they were, but this is about 2½ years ago, and I was in the midst of correlating this information when I was told my appearance here had been boosted up 4 hours.

Mr. SIMON. Mr. Murray, did Enterprise Construction Co. ever get sufficiently unhappy with you to summon you to their offices?

Mr. MURRAY. There was hearsay to that effect.

Mr. SIMON. Did you ever visit in their offices? Were you invited to their offices?

Mr. MURRAY. No. I was invited to the office of the United Credit Corp.

Mr. SIMON. Is that Mr. Siegal's office?

Mr. MURRAY. No; it was an office of the finance company that was discounting their paper.

Mr. SIMON. Was that Mr. Siegal?

Mr. MURRAY. Well, I don't know whether Mr. Siegal was connected with this company or not. They had some interlocking corporations between Spokane, Seattle, Oakland, Los Angeles, and San Diego.

Mr. SIMON. What is the relationship between United Credit and Enterprise?

Mr. MURRAY. Well, the only thing that I knew of the relationship was the fact that United Credits was their discounting house.

Mr. SIMON. Enterprise discounted their paper at United Credit?

Mr. MURRAY. Yes, sir.

Mr. SIMON. Do you know who owned United Credit?

Mr. MURRAY. No, sir; I don't.

Mr. SIMON. Will you tell us about the meeting you had in the United Credit office?

Mr. MURRAY. Well, I went there for the purpose of trying to induce the United Credit Corp. to be a little bit more careful in choosing their dealers, among which was the Enterprise Construction Co., and I pointed the various things out to their attention, that had gone on, and that I was aware of, and it was agreed then that they would use a little bit more caution, and I was ushered out of the office.

Subsequently, I was transferred to the Long Beach office.

Mr. SIMON. Do you know whether they took credit for having you transferred?

Mr. MURRAY. That was hearsay, that because I had been in their hair in Los Angeles I was banished to the salt mines, so they said.

Senator BENNETT. While you were in their office did they give you any intimation that if you continued to be difficult, as far as they were concerned, that they would have you banished or that they would see that you were punished in any way?

Mr. MURRAY. That was the inference; yes, sir; but nothing so direct as to who would do it.

Senator BENNETT. They didn't specifically say what would happen to you, but they led you to understand very clearly that something would happen to you?

Mr. MURRAY. Yes, sir.

Senator BENNETT. And it did happen?

Mr. MURRAY. Yes, sir; but not as a result of what they did, because when I came out here to California from Ohio in June of 1950 I took a swing around my territory that had been assigned to me, with my wife, and we were deciding on a place where we were going to live, and it wasn't until we got to Long Beach that we decided that that is where we were going to live, and subsequently, in August of 1950, I negotiated for the purchase of a home there, and did buy the home.

Mr. SIMON. So, while they had nothing to do with your being transferred to Long Beach, they took credit for it?

Mr. MURRAY. That was hearsay that came back to me.

Senator BENNETT. Did you ask to be transferred to Long Beach?

Mr. MURRAY. Yes, sir.

Senator BENNETT. Mr. Murray, did you have a meeting in the office of a man named Siegal?

Mr. MURRAY. Yes, sir.

Mr. SIMON. Would you tell us about that?

Mr. MURRAY. Well, that was a meeting that was along the same lines as we had of the meeting in United Credit, and prior to the meeting in United Credit.

Mr. SIMON. Who is Mr. Siegal?

Mr. MURRAY. He at that time I believe was the vice president of the Enterprise Construction Co.

Mr. SIMON. Will you tell us about that meeting?

Mr. MURRAY. That was a meeting wherein he intimated that there were sometimes complaints arising from time to time, and they may come to my knowledge, and they were a just and upright firm and would do everything they could to resolve any complaints that did come in and if I would just call him on the phone, or drop him a line when those matters came to my attention, he would see that they were adjusted and there would be no necessity of me doing anything further than that.

Mr. SIMON. Did he try on that occasion to impress you with his influence?

Mr. MURRAY. Yes, he did.

Mr. SIMON. In what respect?

Mr. MURRAY. Well, he talked about the various people he knew back east, in Ohio, and the various people that were active politically in California.

Mr. SIMON. What did he tell you, without mentioning any names?

Mr. MURRAY. Well, that he was a friend of so and so's, and he has had lunch with so and so, and that he was just up among the boys that could either make it comfortable or uncomfortable for me.

Mr. SIMON. Depending on how you treated Enterprise?

Mr. MURRAY. Apparently that was his inference.

Mr. SIMON. Was there any conference about a picture on the wall?

Mr. MURRAY. There was.

Mr. SIMON. What was that?

Mr. MURRAY. He was a prominent man——

Mr. SIMON. Who was the picture of?

Mr. MURRAY. President Truman.

Mr. SIMON. Was there any autograph on it?

Mr. MURRAY. There was, but I wasn't able to see it too clearly. Incidentally, this picture was in the office of the United Credit Corp.

Mr. SIMON. Siegal was the vice president of Enterprise?

Mr. MURRAY. Yes.

Mr. SIMON. But the meeting you had with him was in the offices of United Credit?

Mr. MURRAY. No, sir. There was two distinct meetings, one in United Credit Corp. at the time this picture was observed, and the other in the office of Enterprise Construction Co.

Mr. SIMON. What was the conversation about the picture?

Mr. MURRAY. There didn't seem to be any conversation about it other than the fact that it was prominently displayed and from time to time he looked at it as if to say, "Well, there it is and you can draw your own conclusions how we got a personally autographed picture."

Mr. SIMON. Did you understand you were to be impressed by that fact?

Mr. MURRAY. Well, only on my own conclusion, I can have come to that conclusion, but it was not pointed out to me that there is the picture and you be impressed.

Mr. SIMON. What do you mean by saying that from time to time they looked at it?

Mr. MURRAY. Well, just in this meeting, there was—I don't recall exactly who was there. I know one man that I can vividly remember as being there and he would glance at it and glance at it, and naturally who you are talking to somebody and you see them glance at something, you nod your head too to see what they are looking at, and that is what I did.

Senator BENNETT. In other words, this was a very subtle method of remind you that as an employee of FHA you had better mind your P's and Q's something unpleasant might occur?

Mr. MURRAY. That could—

Senator BENNETT. That is the inference you drew?

Mr. MURRAY. That could be the inference. It didn't impress me at all because I was there as a representative of the Federal Housing Administration, endeavoring to do a job, and—

Mr. SIMON. We know you weren't impressed or you wouldn't be here talking about it, but I gather it was your impression they were trying to impress you?

Mr. MURRAY. I think they were.

Mr. SIMON. Do you know who the officers of Enterprise Construction are and who the officers of United Credit are?

Mr. MURRAY. No, sir. I believe they are both disbanded and they changed from time to time, also.

Mr. SIMON. Do you know whether United Credit was financed by the Bank of America?

Mr. MURRAY. I don't know that to be a fact, although it was hearsay. I have no reason to believe it wasn't.

Senator BENNETT. Thank you very much, Mr. Murray. That will be all.

Mr. MURRAY. Incidentally, Senator, may I have a moment to clarify an article that was in this morning's newspaper as it pertained to the fact that the Federal Housing Administration was perhaps a little lax in collecting on these title I loans?

Senator BENNETT. I think that is germane to our investigation. I am sure the newspapermen would be glad to be corrected.

Mr. MURRAY. There was one sheet that I grabbed up in a hurry this morning, which showed that since the inception of our title I program we had insured over 17 million loans worth approximately \$8 billion and out of the 17 million loans we had insured we had paid claims for 500,000 loans, worth \$158 million.

Mr. SIMON. Mr. Murray, what you mean when you say you paid claims is that the United States Government had to reimburse some bank to a loan that went sour?

Mr. MURRAY. Yes. We reimbursed 2 percent of the amount that we insured. We subsequently collected close to \$80 million, which actually was \$79,937,000, which represented almost 51 percent of the amount of money that we had paid out.

Mr. SIMON. And in those cases where the homeowner didn't pay the bank, either because the homeowner felt he was defrauded or any other reason, the bank then turned the note over to the Government, the Government had to pay the bank the amount of the note, and the United States Government then had to collect from the homeowner?

Mr. MURRAY. Yes, sir.

Mr. SIMON. And as your figures show, the Government collected about 51 percent of the amounts of the notes that it had to bail the banks out for?

Mr. MURRAY. That is right, and, incidentally, most of the defaults were not occasioned by the fact that the people thought that they were defrauded. They were mostly on an economic problem, or a problem of marital difficulties. That has been my experience over collecting these loans, over an 8-year period.

Senator BENNETT. Of course, there are two problems here. Once the person has made the note, or signed the note, all of the pressure that is necessary to collect it is exerted first by the bank, and then when that fails by FHA, and then when that fails the note is turned over to the Federal district attorney and he puts the whole power of the Federal Government behind it, so it would be a miracle if the collections on FHA were not almost 100 percent.

Mr. MURRAY. Yes, but these collections I speak about were made through the mail and through—not as a result of any action taken legally.

Senator BENNETT. That is right. You can always collect. As you approach the uncollectible minimum in a group of accounts receivable you have to increase the severity of your methods and FHA stood there in the middle and was able to do a pretty good job.

That is all, Mr. Murray.

As our final witness this morning we shall hear Mr. R. J. Bauer of the Los Angeles Better Business Bureau.

Mr. Bauer, will you be sworn?

Do you solemnly swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF R. J. BAUER, PRESIDENT, LOS ANGELES BETTER BUSINESS BUREAU

Mr. BAUER. I do.

Senator BENNETT. Will you identify yourself for the reporter, please?

Mr. BAUER. I am Robert J. Bauer, president of the Los Angeles Better Business Bureau.

Mr. SIMON. Would you give your address, Mr. Bauer?

Mr. BAUER. Home address?

Mr. SIMON. Yes.

Mr. BAUER. 10537 Garwood Place, Los Angeles.

Mr. SIMON. Mr. Bauer, would you again state your position with the better business bureau?

Mr. BAUER. President.

Mr. SIMON. Mr. Bauer, has the FHA title I home improvement program created any difficulties or problems for the Los Angeles Better Business Bureau?

Mr. BAUER. It has created problems for us from 1935 on. We have been living with that problem for almost 20 years.

Mr. SIMON. Have you had a substantial number of complaints from resident of Los Angeles?

Mr. BAUER. Yes. We have had thousands of them.

Mr. SIMON. Can you tell us the companies against which you have had the greatest number of complaints?

Mr. BAUER. Mr. Miller, can I have that list?
I have such list.

Senator BENNETT. Does that list cover all the pages you have in your hand?

Mr. BAUER. It is this long.

Mr. SIMON. Can you tell us what are the five companies you had the greatest number of complaints on?

Mr. BAUER. Enterprise Construction Co. I would say would be probably No. 1.

Mr. SIMON. Do you know who the officers of Enterprise Construction Co. are?

Mr. BAUER. As has been testified, they changed from time to time. I think Robert Tentzer was and his brother also named Tentzer, I have forgotten his first name.

Mr. SIMON. You say they changed from time to time?

Mr. BAUER. After they got into difficulty, I believe that they sold out or something and changed officers. I don't know the details of that.

Mr. SIMON. Do you know who the people were who were in back of the Enterprise Construction Co.?

Mr. BAUER. As I understood it, the Tentzers were.

Mr. SIMON. Anybody else connected with them?

Mr. BAUER. Well, I didn't know the relationship. I think there was a man named Nielson who was connected with their credit company.

Mr. SIMON. United Credit Co.?

Mr. BAUER. Yes. I always understood they were closely related.

Mr. SIMON. Do you know what the connections were between or was between United Credit and Enterprise?

Mr. BAUER. I understood that the Tentzers controlled both. That is a matter of hearsay. They never told me that.

Senator BENNETT. Do you know whether United Credit financed for any other construction company outside of Enterprise?

Mr. BAUER. They may have. We noticed practically all Enterprise were there.

Mr. SIMON. You say Enterprise—

Senator BENNETT. May we put into the record this list, this entire list, without reading it, and at this point would you read the five names that you have on the top of that list?

(The information referred to follows:)

Construction concerns against whom complaints have been filed with Better Business Bureau, Los Angeles:

California Home Remodeling Co.
Federal Insulation Co.
Applicators of California
Enterprise Construction Co.
Adex Construction Co.
Durastone Co.
Merlin Construction Co.
Stonecrafters, Inc.
Atlas Home Improvement Co.
Norber Construction Co.
Nu-Tone Construction Co.
Old Quaker Paint Co.
Atomastic Corp.

Angelus Builders
Cardiff Corp.
Harvey Martin, Inc.
Drexel Construction Co.
R. & C. Coating Co.
Ross Home Improvement Co.
Nu Mastic Co.
Davidson Construction Co.
Williams Painting Co.
Pyramid Construction Co.
California Home Construction Co.
Thompson & Haney Co.
Alpha Builders

Carl-Ray Construction Co.
 Metro Construction Co.
 Harvard Construction Co.
 Melrose Builders
 A-1 Home Improvement Co.
 Academy Home Improvement Co.
 Ace Builders & Supply Co.
 Stewart & Associates
 Acme Construction Co.
 John H. Willis
 Allied Builders
 Fabritex Corp.
 Commercial Improvement Co.
 Atlas Painting Co.
 Masonall Home Improvement Co.
 J. Dapello
 Columbia Construction Co.
 Bonafide Construction Co.
 Seaboard Home Improvement Co.
 California Home Remodeling Co.
 Applicators of California
 Cooperative Applicators of California
 Melvin Ross Jackson
 Enterprise Construction Co.
 Colonial Construction Co.
 Robert G. Handel
 Durastone Co.
 Federal Insulation Co.
 Al Bramer

Merlin Construction Co.
 Community Development Co. of America
 (enterprise)
 Angelus Builders
 Gordon M. Beller
 L. A. Income Builders
 Atlas Home Improvement Co.
 Jack Perlman
 Cardiff Corp.
 Abbott Construction Co.
 Harvey Martin, doing business as
 Perma-Tite
 Stonecrafters, Inc.
 Eugene F. Girard
 Adex Construction Co.
 Drexel Construction Co.
 R. & C. Coating Co.
 Los Angeles Painting Co.
 Ross Home Improvement Co.
 Nu Mastic Co.
 Elastol Corp. of America
 Consolidated Sandblasting & Decorating
 Co.
 Allcraft Construction Co.
 California State Roof & Siding Co.
 Ralph Kushner Co.
 American Painting Co.
 Davidson Construction Co.

Senator BENNETT. Is this alphabetical?

Mr. BAUER. No. I do not believe it was arranged according to the number of complaints.

Senator BENNETT. Then we will accept the whole list as being a list of companies with whom you had trouble?

Mr. BAUER. Can I give you a short statement as to our view on this thing as we have seen it develop through the years?

Senator BENNETT. Yes. We would be glad to have it.

Mr. BAUER. In the early stages of title I, the operations under title I, the type of complaint we got arose principally from the use of the so-called show house scheme.

Mr. SIMON. Model house?

Mr. BAUER. Model home. In its simplest form. The way it worked then in the thirties was that a personable young lady would call upon the housewife, explain that she was the secretary of the president of some company, or the manager of some eastern manufacturing company; they had a special type of roof that they were going to introduce on the coast, that it hadn't been used here before, that she was there for the sole purpose of telling this woman that the evening before she and the president of this company, or its manager, had canvassed the neighborhood to see the most likely house that would best demonstrate their product, and that they had decided they would like to put a new roof on, or a new plastic paint in those days, or siding, and it would cost them nothing, that her sole purpose in calling in the afternoon was to make an appointment for her president or manager to visit them that night, when the man of the house would be present, also.

In other words, she was merely a bird dog. This was a fictitious story of a woman employed by a salesman.

That night the salesman would show up, introduce himself as the president of this company, again tell them they wanted to do this work

without charge. Then go on to explain that what they needed was this demonstration home, that they would be willing to pay them \$50 for each person to whom the home was shown, and with whom a contract was entered. That it would as a mere formality be necessary for them to sign a contract covering the cost of the work; that they would give it to them at a greatly reduced price, and they would enter into such a contract.

That was the basis of it at that time, and as a consequence of that, the attention of the homeowner was completely diverted from the cost of the job. In other words, he didn't check competitively to find out what it would cost, and as a result many of them signed contracts agreeing to pay several times what the going price for similar work might be.

Then during the war a new wrinkle came into it. They used the show-house scheme but because it was necessary under FHA provisions during the war for the remodeling jobs to be limited to houses that were not habitable, because of the shortage of materials, and so forth, it was necessary that they get a statement from the homeowner to that effect; that unless repaired the house wouldn't be habitable for more than 90 days.

We had literally hundreds of complaints upon that. The homeowner usually not having realized that he had signed such a statement, along with the 4 or 5 other documents necessary for signature, this was put in, and was explained as being a thing to get a priority. Coercion was used later on those homeowners in many instances to prevent them from filing complaints because they had signed false statements, but that situation became so bad that one morning, in one of the justice courts out here, the judge received 3 guilty pleas, authorized the issuance of 8 additional warrants, and then made an open statement inviting anybody in the community who felt he had been defrauded on this scheme to come to his court 2 weeks hence, and 2 weeks later about 200 complainants showed up in the court.

Mr. SIMON. When was this?

Mr. BAUER. It was sometime about 1933, I think.

Mr. SIMON. How could it be that if the thing was that bad as early as 1933 that it continued for 20 years?

Mr. BAUER. Well, it stops and starts. That is what happened. In the thirties we killed it off through widespread publicity. We had wonderful cooperation from the newspapers. They exposed the fraud as it was then existing, and some of the radio stations put on many broadcasts, and as a result it wasn't practical for them to try to foster the thing any further at that time.

Then it died for a couple of years. Then during the war period it sprung up again. At the time the judge held these hearings, subsequent to that, there were some 16 corporations indicted, and 58 individuals, or 56. Charges were filed against them, and at that time, because it was evident from these cases that there had been—some of the lending institutions didn't have adequate result on the thing, I went to the president of the clearinghouse association here, that is a bank organization, as you know, brought the thing to his attention. They immediately called a meeting of the mortgage committee. We presented the problem to them. We discovered at that time that some of the institutions had very excellent rules which had kept them out of this thing. Some hadn't, but they adopted them at that time, so

that that scheme was again killed, about 1933 or 1934. There was 2 or 3 years' lull in it again.

Mr. SIMON. If the banks would be careful about whose paper they took, and if FHA would discontinue the approved mortgagee status of banks who weren't careful about whose paper they took, wouldn't it be difficult to practice these frauds?

Mr. BAUER. Practically impossible. As a matter of fact, when you look back you have to recognize one thing. FHA was adopted as a depression pump-priming device. As a consequence, in its initial stage, the sole protection was to the lending institution so they would feel free to lend money on a 3-year basis for home improvements.

Senator BENNETT. You are referring to title I of FHA?

Mr. BAUER. Yes, talking about that exclusively.

I feel that the act has been very protective of the lending institutions, and of the contractors, but little attention has been given by FHA or anyone else as to what the people got for their money.

Mr. SIMON. You mean by that it permitted the contractor to get his full money out of the contract without getting a penny from the homeowner, by going to the bank and discounting it 100 percent. It permitted the bank to take anybody's paper that came along, without bothering to check on his credit responsibility, because the Government would bail him out?

Mr. BAUER. Not entirely that. They had to find out the man was alive and a few things of that kind.

Senator BENNETT. They had evidence that he was alive. Somebody was alive to sign the note.

Mr. BAUER. But it did set the machinery in operation for a very different type of extension of credit, than would be made if you were lending your own money at your own risk.

Mr. SIMON. Or if the banks were lending their own money at their own risk.

Mr. BAUER. Yes.

Then, incidentally, FHA again modified its rules during the war on that regulation W angle of this thing, that the house wasn't habitable. I might mention before that was done the State contractors license bureau, some of the prosecuting agencies in the bureau, in the better business bureau, checked some 200 houses that had been subject to complaint where the householder had made a statement to the effect, over 200 houses were checked where the householder had given a statement to the effect that the house wouldn't be habitable unless it were repaired, and of the 200 houses more than 150 of them were houses that had been built within 1 to 5 years on FHA loans, which was an utterly ridiculous situation. Here is a home, getting a modernization loan, some of them were not any more than a year or year and a half old, and on the basis that it wouldn't be habitable, so that it wouldn't have required a great deal of checking.

Mr. SIMON. You mean wouldn't have been habitable unless the repairs were made?

Mr. BAUER. Yes. It shouldn't have required a great deal of checking to eliminate.

Senator BENNETT. Of course at this point, Mr. Bauer, as a resident from a State other than California, I thought the climate down here was so salubrious that you actually didn't need a house.

Mr. BAUER. When I came out here I was told you didn't have to buy food. You could go out under an orange tree and wait for the oranges to fall.

Following the war, though, in 1947, the people who got into this modernization racket end of the thing apparently had made a careful study of all of the previous schemes that had been used, and they really polished them up so they worked with volume.

Mr. SIMON. Mass production?

Mr. BAUER. On a mass-production basis. In the first place, with the advent of the so-called mastic paint, they had just what they had been looking for. There had been great publicity throughout the country on the advances in chemistry, and as a consequence it wasn't unreasonable in the minds of many people to have someone make a claim that they had a new paint, a mastic paint, that would last your lifetime, that wouldn't fade, crack, or peel, and that the manufacturer would give a 10-, 15-, 20-year guaranty, that the applicator would give you a guaranty, and, best of all, it wouldn't cost you anything, and as a consequence of that thing there were just literally hundreds of people went in. The racket boys did this. They knew before, in the previous instance, they had operated as individual salesmen, in the early thirties, or late thirties, and early forties. The thing that happened was an individual racketeer would go to a half-dozen applicators, find out what he charged for siding, what he wanted—so many cents a square, or whatever it might be, and then he took the 6 or 8 contracts, and he would go to 1 woman in the 3700 block of a street, on a show-house scheme, and use the contract of X company. In the next block he used the contract of Y company, so if these two women happened to get together they wouldn't immediately discover it was the same fellow putting up the demonstration house, side by side, almost.

In the 1947 activity, they went even further. Some of them used this promise of commissions, but the most effective ones actually give the housewife a collateral contract, in many instances agreeing to pay her on a salary basis on mastic paint, pay her \$35 a month. She agreed to talk pleasantly to people that they might bring to the door and agreed to sprinkle the outside of the house to keep it clean once every 3 months. For that she was to get a payment which would amount to the monthly payment under the FHA loan.

Mr. SIMON. How extensive was that, Mr. Bauer?

Mr. BAUER. I have got some figures here. I got them yesterday. I checked our figures.

During the 18-month period from January 1, 1952, to July 1, 1953, Los Angeles Better Business Bureau received 4,942 requests in connection with home-improvement cases, and during the first 12 months of that period—incidentally, that is an average of 274 a month—and during the first 12 months of that period about 75 percent of the people who came to our office came with complaints. In other words, there were over 200 a month with complaints.

Mr. SIMON. That is 1952?

Mr. BAUER. That is 1952.

At the end of 1952 the newspapers, radio stations, and TV stations cooperated with the bureau in exposing the thing. We circularized every building contractor from Santa Barbara to the Mexican border

and gave them warning posters to put up in paint stores, and so forth, about it.

Mr. SIMON. Of the 200 complaints a month, how many of those would be mastic paint?

Mr. BAUER. Probably 60 percent. I think about 60 percent of them. That is a guess. I think they were running more than half on mastic and on the others. During the first 6 months of 1953, while the number of people who came to us regarding these things was about the same, the complaint and inquiries practically reversed themselves. During the first 6 months of 1953 three-quarters of the people who came in came in to find out about reliability of a contractor, and only about 25 percent came to complain. I checked July of this year to see what the comparison might be, and I find in July we received 245 inquiries regarding the reliability of contractors, on home modernization and only 67 complaints, and some of those complaints were pretty old.

In other words, the transactions had been entered into a long time ago.

There is one amusing sidelight on this thing, not particularly pertinent, but I thought rather interesting. In the early forties we had to go after FHA for improper advertising. FHA put into placards in numerous places throughout the country advertising FHA loans at 4½ percent. They were 4½ percent plus a half a percent for the insurance. You couldn't get one at 4½ percent, and we took it up. There was some disagreement as to the meaning, and whether that was misleading. I went to Washington and eventually even suggested we were going to have the local head arrested on a false advertising charge if they didn't change. They did discontinue the advertising, and that was done.

The other thing that I think should be stressed, and something else that has discontinued but I hope it will not come back, under the other provisions of the act in the early stages of FHA, in endeavoring to publicize the new law, great stress was laid upon the protection to the homeowner that it afforded, through the fact that these loans would be approved by the Government, and there would be inspections. They later discontinued that when they saw the fallacy of that thing, and the impracticality of it. But I do believe that every time you get a regulatory measure, or measure of this kind, that appears to have some regulation in it, that there is a tendency to put the guard of the homeowner or the investor down. He thinks that the Government is going to protect him. That is one thing we have to guard against, the security laws and others, because many times they think that is sanction or stamp of approval of the Government.

Senator BENNETT. We recognize that.

I would like to say this, too: I think your committee is rendering a very valuable service, particularly in connection with title I in holding these investigations—it is an arduous task, I realize—in various cities, bringing to public light the types of gyms that have occurred. Really the best guard against that is an enlightened homeowner.

I think your report, that during the last year or so the number of inquiries regarding reliability have exceeded the number of complaints indicates the value of this particular program. I hope this is not just another lull and that they will be able to figure out a new device on which to start all over again.

Mr. BAUER. I am afraid they will. It always happens. These boys stay up later at nights than we do, I am afraid, thinking up new angles, and when you change the law they usually find some way to help themselves.

Senator BENNETT. Maybe they have to stay up later to keep their suede shoes cleaned up. I have always suspected they were more difficult than an ordinary calf pair.

Thank you very much, Mr. Bauer. We appreciate that information and the list you have given us will be put in the record.

Mr. BAUER. Incidentally, you might like to have this in the record. This is the collateral contract used by one of the companies, and it has, where it agrees to pay this woman \$32 a month for doing these various things, and it has at the end of it a statement that—

if the homeowner discusses or informs in any manner, or in any manner communicates with anyone other than the parties hereto, the provisions of this agreement, the blank company, may at its option and without notice, terminate the agreement.

That was to keep it secret so that the banking institution or FHA would not know of the collateral contract.

Senator BENNETT. In other words, she is hired, if you want to read this very carefully, she is hired to answer inquiries but if she discusses the problem with anybody except the company that hired her—in other words, if she does answer inquiries the agreement is void?

Mr. BAUER. No; if she lets anyone know she is being paid. The purpose of that is, for instance—

Senator BENNETT. That is in the provisions of the contract.

Mr. BAUER. One garbage-disposal outfit—a sales organization, were acquiring garbage-disposal units at \$35.95 each. They were selling them under the show-house scheme to homeowners installed at \$295. The gimmick was that the homeowner was to get \$15 a month, which was more than the monthly payment under FHA, and what he had to do for that was to supply them with names of 2 homeowners who did not own garbage-disposal units. The agreement wasn't that they would sell them or anything.

The way they could get by with that was these fellows would simply set up with a desk and two chairs and issue this under a corporate name, and they paid them for a couple of months, until they could get the cream from that name, fold up that corporation, start up under another name, rescind all those contracts.

Mr. SIMON. The bank would take the paper from the new corporations as fast as they incorporated?

Mr. BAUER. I will say on the garbage-disposal unit thing that through action of the FHA and the banks that was very quickly pushed into other lending channels, and we had to go to the detail in stopping it of every time we found a new lending institution, inform them of the collateral contract, and point out to them that with knowledge of its existence they were no longer innocent and third parties to the holding of this paper, and hence would have trouble collecting it, and then they went from company to company until they were finally washed out on this.

Senator BENNETT. Thank you, Mr. Bauer.

This afternoon we will hear five property owners who will discuss their experience on title I, and we will also hear a representative of the Bank of America.

There is no further business this morning. We are recessed until 2 o'clock.

(Whereupon, at 12:20 p. m., a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

Senator BENNETT. The hearing will begin. We will resume.

We intend to hear first this afternoon five people who have had experience with the title I program.

Is Miss or Mrs. Vivian Pierce in the room?

Mrs. PIERCE. Yes, sir.

Senator BENNETT. Is it Mrs. Pierce?

Mrs. PIERCE. Mrs. Pierce.

Senator BENNETT. Will you first be sworn.

Do you solemnly swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF MRS. VIVIAN PIERCE, PUENTE, CALIF.

Mrs. PIERCE. I do.

Senator BENNETT. Will you take that chair, Mrs. Pierce.

May I suggest there is nothing to be afraid of. Just relax.

Tell us your story. Will you be careful to talk into the microphone.

Mrs. PIERCE. Tell it in my own words?

Senator BENNETT. Give the reporter your name and address, please.

Mrs. PIERCE. Mrs. Vivian Pierce, and I live at 15019 East Salt Lake Avenue, in Puente.

Senator BENNETT. Mr. Simon will ask you some questions and we will go on from there.

Mr. SIMON. You had an experience in the last couple of years with an FHA home-improvement program?

Mrs. PIERCE. Yes, we did.

Mr. SIMON. Would you tell us what happened, please?

Mrs. PIERCE. Well, my husband and I had built our own home. We had three rooms completed, and we needed additional facilities, utility room and bedroom, and our bathroom wasn't complete, and we had tried in several places, a couple of banks, to get an FHA loan, and we couldn't get it. We also tried mortgage companies, and they said because the home wasn't complete we were not eligible for an FHA loan, so we had given it up, and thought we would have to wait quite a while longer before we built, and then one evening a salesman by the name of Mr. Roe, with the Ross Home Improvement Co., came past our home, and we said "We are just out of funds. We can't possibly get a mastic paint job on this home. We just don't have any money, and no way of getting it." He says "Maybe I can help you on that." We let him go ahead and try. We didn't think he could do anything about it.

The next morning he came back, we signed some papers, and he came back with \$1,000 for an additional improvement for our home, and we agreed to pay for \$875 on the paint job, drew up a contract that he was supposed to return—well, he was supposed to come out and paint three sides of our home and return when we had put up the

rest of the building with the \$1,000, and finish the mastic job on the rest of the place after we had put it up.

Mr. SIMON. Mrs. Pierce, do I understand what happened is your house wasn't finished, and you didn't have the funds to finish it, and he wanted \$875 for the mastic paint job?

Mrs. PIERCE. That is right.

Mr. SIMON. So he said he would get you \$1,875 loan?

Mrs. PIERCE. That is right.

Mr. SIMON. He would give you \$1,000, which you could then use to fix up the rest of the house?

Mrs. PIERCE. No, to build an addition to the house. Then he was to come back and finish painting the addition so that the house would all be the same color.

Mr. SIMON. What happened then? Did he paint the three sides?

Mrs. PIERCE. He painted the three sides.

Mr. SIMON. Did he give you the \$1,000?

Mrs. PIERCE. He gave us \$1,000.

Mr. SIMON. Did he come back to finish the rest of it?

Mrs. PIERCE. No. When we got the walls up and the rest of the place finished, and we called up to have him come out and finish his part of the contract, he was out of business.

Mr. SIMON. I believe, Mrs. Pierce, you were telling us that by the time you wanted to get the fourth side of the house painted they were out of business?

Mrs. PIERCE. That is correct.

Mr. SIMON. What was the character or quality of the work they did on the other three sides?

Mrs. PIERCE. It was supposed to be a quarter of an inch thick. It wasn't that. It was supposed to be fadeproof, and it wasn't that. It wasn't supposed to fade.

Mr. SIMON. Fadeproof?

Mrs. PIERCE. Yes.

Senator BENNETT. What color was it?

Mrs. PIERCE. Desert rose.

Senator BENNETT. One of these grade pink colors?

Mrs. PIERCE. That is right.

Mr. SIMON. You say it did fade?

Mrs. PIERCE. Yes, it does fade.

Senator BENNETT. May I tell you there is no color like that that won't fade outside.

Mrs. PIERCE. I don't doubt that a bit now.

Senator BENNETT. They told you the paint would be a quarter of an inch thick?

Mrs. PIERCE. Yes. It was supposed to be a quarter of an inch thick.

Senator BENNETT. Does it run a little when the sun hits it?

Mrs. PIERCE. It ran when I put soap on it and scrubbed it down.

Mr. SIMON. What else happened?

Mrs. PIERCE. Well, I think that is just about enough.

Senator BENNETT. How much was the note that you signed? Was it for \$1,875?

Mrs. PIERCE. Well, plus the interest, it was \$2,100.

Mr. SIMON. Mrs. Pierce, would you have bought this paint, mastic paint job, for \$875 if they hadn't made arrangements to get you the \$1,000 for the addition?

Mrs. PIERCE. No. We built the house. We would have painted it ourselves.

Mr. SIMON. So you really bought the mastic paint job only because that was the way you could get the \$1,000?

Mrs. PIERCE. That is right, because we needed the utility room and bedroom and bathroom very badly.

Senator BENNETT. When you signed the note did you know you were signing a note for \$2,100?

Mrs. PIERCE. Yes. We knew that.

Mr. SIMON. You were paying a pretty high rate of interest, weren't you, when you signed a \$2,100 note just to get \$1,000?

Mrs. PIERCE. We had been dealing with fine companies, and that is high, too.

Mr. SIMON. You paid \$875 for the paint job just because that enabled you to get the \$1,000 loan you wanted to repair or extend the rest of your house?

Mrs. PIERCE. That is right.

Senator BENNETT. Have you used the money, the \$1,000, for that purpose?

Mrs. PIERCE. Yes.

Senator BENNETT. You have finished your house?

Mrs. PIERCE. Yes. Our building is up and it has been passed by the county for quite a while. We have put in considerably more money than that to the building.

Senator BENNETT. That is all. Thank you very much, Mrs. Pierce.

Mrs. PIERCE. Thank you.

Senator BENNETT. Is Mrs. Lulu Rencher here?

Mrs. Rencher, do you solemnly swear that the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF MRS. LULA RENCHER, LOS ANGELES, CALIF.

Mrs. RENCHER. I do.

Senator BENNETT. Will you sit there, please, and talk carefully into the microphone so that we can hear you.

Will you give the reporter your name and address?

Mrs. RENCHER. 1737 West 35th Street.

Mr. SIMON. Will you give us your name, first?

Mrs. RENCHER. Lula D. Rencher.

Mr. SIMON. Will you spell that, please?

Mrs. RENCHER. R-e-n-c-h-e-r.

Mr. SIMON. Your address?

Mrs. RENCHER. 1737 West 35th Street.

Mr. SIMON. Is that in Los Angeles?

Mrs. RENCHER. Yes.

Mr. SIMON. You own your own home?

Mrs. RENCHER. Yes.

Mr. SIMON. Did you have an FHA improvement loan in the last couple of years?

Mrs. RENCHER. Yes, for siding.

Mr. SIMON. For siding?

Mrs. RENCHER. Yes.

Mr. SIMON. Will you tell us what happened?

Mrs. RENCHER. Well, I gave you the papers.

Mr. SIMON. All right.

Mrs. RENCHER. This is the contract with Mr. Snyder.

Mr. SIMON. Can you tell us what the man said when he came out, why you bought it, and what you got?

Mrs. RENCHER. He was supposed to put the siding on for \$600, and when I went to the bank to see about it, it was \$650, so I had given him \$25 down, and he didn't give me credit for that, and then the bank note is more than my contract, and he didn't give me the contract, the first contract. He came to my house and made out another contract, different from the bank's.

Mr. SIMON. Did he tell you that your home was going to be a model home?

Mrs. RENCHER. Yes. He said the first in that vicinity, he was making me a good deal, a good price.

Mr. SIMON. Yours was the first home in the vicinity?

Mrs. RENCHER. Well, in that neighborhood, I guess.

Mr. SIMON. In that neighborhood?

Mrs. RENCHER. Yes.

Mr. SIMON. What do you mean when he said he was going to make you a good price?

Mrs. RENCHER. He said that was cheap, the \$600.

Mr. SIMON. Did he tell you what the regular price was?

Mrs. RENCHER. No; he didn't.

Mr. SIMON. Did he say anything about giving you a bonus on other sales?

Mrs. RENCHER. No; I don't recall.

Mr. SIMON. Did they do the work?

Mrs. RENCHER. Yes. He did the work but he was supposed to put a pillar under the front door, and the kitchen door because it is sagging, the house, and he was supposed to jack that up, but I had my son to go under there and he didn't do it.

Mr. SIMON. Was that the only respect in which the work wasn't satisfactory?

Mrs. RENCHER. Well, it is not so good because he said it wouldn't crack, and it has cracked in different places. I find lots of cracks around.

Mr. SIMON. How long ago was the work done?

Mrs. RENCHER. I think it will be 2 years in May.

Mr. SIMON. When did the cracks occur?

Mrs. RENCHER. I don't know. They might have occurred when he put it on there.

Senator BENNETT. The contract says "Also replace bricks for foundation on the side of the house where needed."

Mrs. RENCHER. He did that.

Senator BENNETT. He put some bricks in there?

Mrs. RENCHER. Yes; because it was outside.

Senator BENNETT. I will have to get new glasses. It is pretty hard to read what he wrote in here.

Mrs. RENCHER. He charged me \$75 too much and didn't give me credit for it.

Senator BENNETT. He charged you \$50 too much and didn't give you credit for \$25, so actually you were out \$75?

Mrs. RENCHER. That is right.

Mr. SIMON. Who is Earl Schneider?

Mrs. RENCHER. I guess he is a contractor.

Mr. SIMON. You have just handed me some envelopes that contain pieces of paper.

Mrs. RENCHER. He sent me \$10 a month. He was supposed to send me \$10 a month until he paid me the whole sum of \$75, so he has only sent me 4.

Mr. SIMON. He was supposed to send you \$10 a month, and he did it for 4 months?

Mrs. RENCHER. Yes. I would call him every week, sometimes twice a week, and he was never home. His wife said he was out of town. I would tell her when he returned will you have him call me, and she said she would, but he never has called me. That has been about 3 months.

Senator BENNETT. Why did he promise to send you \$10 a month?

Mrs. RENCHER. To pay me the \$75.

Senator BENNETT. You knew he was taking \$75, then?

Mrs. RENCHER. Oh, yes; but I didn't know it until I went to the bank and seen the contract of the bank was \$650.

Senator BENNETT. Then after you found out that he had increased the contract with the bank did you get in touch with him and ask him to pay it back? When did he promise to pay you \$10 a month? Before you signed the contract?

Mrs. RENCHER. No; afterward.

Senator BENNETT. After you found out that he had raised the amount of the contract?

Mrs. RENCHER. Yes. I didn't know at the time that he charged me too much. He promised to do all the woodwork free but, of course, that wasn't in the contract.

Senator BENNETT. That is just what he told you he would do?

Mrs. RENCHER. Yes; to get the job.

Mr. SIMON. Did he do it?

Mrs. RENCHER. No; he didn't.

Senator BENNETT. I think that is all the information you can help us with, Mrs. Rencher. I am sorry that you got in the hands of a man like that.

Mrs. RENCHER. There is no way I can get the rest of my money? I need it.

Mr. SIMON. If you can find him you can sue him.

Senator BENNETT. I am afraid there is nothing we can do, because unfortunately you signed the note. You promised to pay that money to the bank and the bank will expect you to pay it.

Mrs. RENCHER. Yes. I have been paying it right along, but still he owes me, and I need it.

Senator BENNETT. Do you know where to find him?

Mrs. RENCHER. I know where his home is. It is up there near Wilshire somewhere.

Senator BENNETT. Is his wife still there?

Mrs. RENCHER. She is still there.

Senator BENNETT. Do they have in Los Angeles a legal aid society, an organization to provide legal help for people? I would suggest that you go to the legal aid society, and tell them your story, and they should give you help if they can find this man.

Mrs. RENCHER. Yes.

Senator BENNETT. All you expect to get back is the \$35?

Mrs. RENCHER. Yes.

Senator BENNETT. That was left from the \$75?

Mrs. RENCHER. Yes.

Senator BENNETT. You go to the legal aid society and tell them your story.

Mrs. RENCHER. Thank you.

Senator BENNETT. Thank you, Mrs. Rencher.

Next we will hear from Mrs. Mary Dergarabedian.

Is that right? Did I do a pretty good job with your name?

Mrs. DERAGARABEDIAN. Very well.

Senator BENNETT. Maybe if you would tell it to the reporter it will be a better job.

Mrs. DERAGARABEDIAN. Deragarabedian.

Senator BENNETT. Do you solemnly swear the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF MRS. MARY DERAGARABEDIAN, BURBANK, CALIF.

Mrs. DERAGARABEDIAN. I do.

Mr. SIMON. Will you sit there, Mrs. Deragarabedian, and will you talk into the microphone so we can all hear you, and will you give the reporter your name and address?

Mrs. DERAGARABEDIAN. Mary Deragarabedian.

Mr. SIMON. Your address, please?

Mrs. DERAGARABEDIAN. 748 Groton Drive, Burbank.

Mr. SIMON. That is Mrs.?

Mrs. DERAGARABEDIAN. Yes.

Mr. SIMON. Do you and your husband own your own home?

Mrs. DERAGARABEDIAN. Yes; we do.

Mr. SIMON. Did you have an experience with an FHA home-improvement loan in the last couple of years?

Mrs. DERAGARABEDIAN. Yes.

Mr. SIMON. Would you tell us about it, please?

Mrs. DERAGARABEDIAN. It is a patio. They came just as we moved in. The day we moved in this Mr. Girard came and saw my husband and said he would like to talk to him about a patio and barbecue.

Mr. SIMON. Do you remember what company he was with?

Mrs. DERAGARABEDIAN. Cardiff Corp. Since we were busy the first day would it be all right for him to come the next day, and then he came to see me and said that this Mr. Updike, who is I guess the general manager or something or other—

Mr. SIMON. Of the Cardiff Co.?

Mrs. DERAGARABEDIAN. Yes—would come—couldn't come that particular day, and would it be all right for him to come the next day. He was in Las Vegas with a big deal going on and he couldn't make it. Fine, sure, he could. So they all came that evening.

Mr. SIMON. What do you mean by "they all"?

Mrs. DERAGARABEDIAN. Mr. Updike and this Mr. Girard, and he came with these folders of different types of patios, and when they wanted to sell us was more expensive. All flagstone, and we had the corner lot. It was a nice view. We were in a brand new project,

and, of course, we could probably make money on it by getting people to buy these patios like ours.

Mr. SIMON. That is what they told you?

Mrs. DERAGARABEDIAN. Yes.

Mr. SIMON. That you could make money on it?

Mrs. DERAGARABEDIAN. Yes. They gave us cards to write names on for people who might be interested, and if we gave them the name and they sold them, then we would get \$25 for each one, and someone in San Francisco apparently had done this, so they told us, and we were supposed to have a 4-inch slab and steel reinforced. Of course, knowing nothing about construction at the time, we had no idea, and another thing is it was supposed to be a model, and we were supposed to have a guest book for people who came to see it, too, and we weren't supposed to show anybody this book.

Mr. SIMON. You weren't supposed to show this book?

Mrs. DERAGARABEDIAN. No. We were supposed to keep these names confidential.

Mr. SIMON. What was in the book?

Mrs. DERAGARABEDIAN. It was supposed to be our own book.

Senator BENNETT. In other words, you were to keep a list of the people who came to see it in a private book which you were not to show to anybody else?

Mrs. DERAGARABEDIAN. Yes.

Mr. SIMON. How much were they going to charge you?

Mrs. DERAGARABEDIAN. \$890, but it apparently was supposed to be worth \$1,100 or \$1,200. I don't remember what he said right now.

Mr. SIMON. They told you it was worth \$1,100 or \$1,200, but because yours was a model they would give it to you for \$890?

Mrs. DERAGARABEDIAN. Yes. That was supposed to be a very good deal.

Mr. SIMON. Did they tell you anything to indicate whether other people were going to buy any of these patios, and you would get any bonuses or commissions?

Mrs. DERAGARABEDIAN. If we gave the names and people bought, then we would get the bonus.

Mr. SIMON. But they didn't assure you that you would get any bonus?

Mrs. DERAGARABEDIAN. No.

Senator BENNETT. Did they give you any letter to show their intention to give you a commission on these others, or did they tell you?

Mrs. DERAGARABEDIAN. No, they gave us some cards.

Senator BENNETT. We understand. They give you cards on which you were to put the names of the prospective purchasers and send them in?

Mrs. DERAGARABEDIAN. Yes; but nothing other than that.

I have some papers here you might be interested in.

Senator BENNETT. Did you actually send them the names of some people?

Mrs. DERAGARABEDIAN. No; we didn't. We decided immediately that it was funny because they came that day. It was late, and by the time the transaction took place they must have left about 8 o'clock and 12 o'clock at night they were bringing the things in—the flagstones and sand, and so forth to build.

Senator BENNETT. Did they bring in any steel to reinforce it?

Mrs. DERAGARABEDIAN. They had some wire. I watched them do it. They had wiring. If that is supposed to be steel, I don't know.

Senator BENNETT. That is usually the way, a concrete slab is reinforced with wire.

Mrs. DERAGARABEDIAN. I saw them do the back. Somebody else did the back, and they had these little quarter-inch ones but that was like wire.

Senator BENNETT. Chicken wire?

Mrs. DERAGARABEDIAN. Yes.

Senator BENNETT. How much downpayment did you give them?

Mrs. DERAGARABEDIAN. We didn't give them any downpayment.

Senator BENNETT. But you signed a statement that you had made a downpayment?

Mrs. DERAGARABEDIAN. That is right, of \$90. We were supposed to pay this Mr. Updyke this \$90, on our own. It was a man-to-man agreement between my husband and him, and, of course, when we decided we thought it was a gyp we didn't pay him.

Mr. SIMON. Did they ever do anything to make you pay it?

Mrs. DERAGARABEDIAN. No.

Senator BENNETT. They are now out of business, aren't they?

Mrs. DERAGARABEDIAN. Yes.

Mr. SIMON. Where did you get this copy of the note you have here?

Mrs. DERAGARABEDIAN. They gave it to us.

Mr. SIMON. At the time?

Mrs. DERAGARABEDIAN. Yes; when we signed the contract that they had right there for us to sign.

Mr. SIMON. Did they give you the copy at the same time?

Mrs. DERAGARABEDIAN. I guess so.

Mr. SIMON. I notice while the note is made payable to the Cardiff Corp., it is on a printed form. It says you will make your payments at the Bank of America.

Mrs. DERAGARABEDIAN. Yes.

Mr. SIMON. Were they using the Bank of America forms?

Mrs. DERAGARABEDIAN. Well, I don't know. That is all I have.

Mr. SIMON. It is printed right in there, that you make your payments at the Bank of America.

Mrs. DERAGARABEDIAN. Yes.

Mr. SIMON. Is that where you are making payments?

Mrs. DERAGARABEDIAN. Yes.

Mr. SIMON. The note that they had that night was printed right in there "Bank of America"; is that right?

Mrs. DERAGARABEDIAN. I suppose so. That is supposed to be just a copy of it. I don't remember. It is a little while.

Mr. SIMON. Thank you.

Senator BENNETT. You also went to the FHA office itself?

Mrs. DERAGARABEDIAN. Yes, sir; and we went to the Bank of America, too.

Senator BENNETT. What did they tell you at the FHA office?

Mrs. DERAGARABEDIAN. Well, my husband went to the FHA and Mr. Thomas there said that they couldn't do anything about it, and all he would say is never to buy from anybody at your door, or anything that was advertised on TV and they just didn't have enough men to take care of these things.

Mr. SIMON. Your husband just tells me that he got that note from the bank later on and they didn't give it to you that night.

Mrs. DERAGARABEDIAN. I don't know.

Senator BENNETT. Then that is what explains the fact.

Mr. SIMON. He just came up and said that he asked them for a copy.

Mrs. DERAGARABEDIAN. I don't remember.

Senator BENNETT. Did you have any idea later as to what would have been a proper price for this patio?

Mrs. DERAGARABEDIAN. Yes. We got an estimate from the man who made our retaining wall and while he was making the retaining wall we said "What do you think this is worth?" and he said \$300, so we had him sign the paper, to give us a bid on one, and he said very liberally it would be \$400. He said he would make a very good profit at \$400.

Senator BENNETT. I have in my hands a letter written by Fred Zweiback, president of the Cardiff Corp., which is very interesting. I don't think it is necessary to read it or to put it all in. They point in this letter to the fact that they had endorsed the face of the contract with the statement that the downpayment had been made, so they then can say of the Deragarabedians, "In the face of the signed affidavit and his own personally written statement on the face of the contract, Mr. Deragarabedian has the effrontery to try and shift the blame for his alleged nonpayment of the downpayment onto this company."

Mrs. DERAGARABEDIAN. Yes; they are just trying to frighten us.

Senator BENNETT. That is right.

Did they send you a questionnaire asking you if you were satisfied with the work?

Mrs. DERAGARABEDIAN. Yes, they did, and I didn't want my husband to say "Yes," and he says, "Let's not have trouble." That was frightening. We wondered if we would get into trouble with that sort of thing.

Mr. SIMON. What do you mean by that?

Mrs. DERAGARABEDIAN. We didn't put a downpayment down and we were supposed to have put a downpayment down, and we figured—

Senator BENNETT. Let me ask you a question. You signed the note for \$790. Were you supposed to have paid \$90 in addition to the \$790? Was their contract for \$880?

Mrs. DERAGARABEDIAN. The contract was for \$890.

Senator BENNETT. The note was only for \$790?

Mrs. DERAGARABEDIAN. Was it \$700? I forget all these figures. I could have told you much more 2½ years ago.

Senator BENNETT. Isn't the note for \$790?

Mrs. DERAGARABEDIAN. \$920.

Senator BENNETT. I have been looking at the contract. Let me go back to the contract form.

Mrs. DERAGARABEDIAN. That is with the interest, the \$920.

Senator BENNETT. The contract was \$790 and the note is endorsed—the contract is endorsed "I have made the downpayment with my personal money." Why that would have any particular meaning, I don't know. "This date of February 19, 1952." The contract doesn't say how much downpayment.

Mrs. DERAGARABEDIAN. No.

Senator BENNETT. It just says, "The downpayment."

Mrs. DERAGARABEDIAN. Yes.

Senator BENNETT. Was it your understanding you were to pay \$90 downpayment plus \$790?

Mr. SIMON. \$890.

Senator BENNETT. \$790 the contract says. That is \$790, \$79 a month?

Mrs. DERAGARABEDIAN. I don't remember. You can ask my husband.

Senator BENNETT. Do you know, sir?

Mr. DERAGARABEDIAN. That is \$890.

Senator BENNETT. Was it your understanding that you were going to pay them \$90 more or that you had paid them the first \$90 and you owed them \$800?

Mr. DERAGARABEDIAN. The first \$90.

Senator BENNETT. If you had owed them \$890 the interest would have been more than \$30?

Mrs. DERAGARABEDIAN. \$90 and the note was \$800 plus interest.

Senator BENNETT. I see.

Mrs. DERAGARABEDIAN. I asked the bank for a copy of this. We received this later. The first people I contacted about all of this was the bank.

Senator BENNETT. I think there is nothing more. I don't think you will buy any more things from people at the door, will you?

Mrs. DERAGARABEDIAN. I haven't yet.

Senator BENNETT. We appreciate your coming and telling us your story. We wish we could turn the clock back and give you a second chance to say, "No."

Mrs. DERAGARABEDIAN. Is there anything I can do about it?

Senator BENNETT. I don't think there is. You have signed the note, and the bank is entitled to collect the note. As far as the bank knows, you got the equivalent of the value of the note, and so you have no recourse now.

Mrs. DERAGARABEDIAN. And yet you think that they are gypping us, don't you?

Senator BENNETT. Well——

Mrs. DERAGARABEDIAN. If you can get anything out of them, why can't I sue them?

Senator BENNETT. You can sue the people that sold you this if you can find them.

Mrs. DERAGARABEDIAN. I will find them.

Senator BENNETT. More power to you.

Mrs. Paul Hillegas, will you be sworn?

Do you solemnly swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF MRS. PAUL HILLEGAS, POMONA, CALIF.

Mrs. HILLEGAS. Yes; it is.

Senator BENNETT. Will you sit down and get close to the microphone and identify yourself for the reporter, please?

Mrs. HILLEGAS. I am Mrs. Paul Hillegas, 1803 Fleming Street, Pomona, Calif.

Mr. SIMON. Do you and your husband own your own home?

Mrs. HILLEGAS. Yes; we do.

Mr. SIMON. Did you have an experience with an FHA home improvement loan in the last couple of years?

Mrs. HILLEGAS. Definitely.

Mr. SIMON. Would you tell us your experience?

Mrs. HILLEGAS. Yes.

Shortly after we moved into our house——

Mr. SIMON. When was that?

Mrs. HILLEGAS. In November of 1949. A gentleman came to the door——

Senator BENNETT. May I ask you a question at this point: Was your house financed by the FHA?

Mrs. HILLEGAS. FHA, GI loan.

Senator BENNETT. They are not the same thing. It was a GI loan?

Mrs. HILLEGAS. Two loans, one of FHA and one GI.

Senator BENNETT. So you were inclined to have confidence in FHA?

Mrs. HILLEGAS. Yes.

Senator BENNETT. That is my point.

Proceed.

Mrs. HILLEGAS. A salesman came to the door one afternoon and asked if he and another fellow could come by that evening and explain to us how we could have a model patio on our property, which was to be the first in our vicinity, at no cost to us. I explained to him that we had just moved in and had just bought the property and other furniture, and were rather strapped for finances, and he assured me that it would cost us nothing, that we were not obligated in any way by their visit, so he did come back that evening with a Mr.— I don't remember the name of the first salesman, but with a Mr. George B. Ducat, who represented himself as general sales manager of the Superior Construction Co.

They showed us artist drawings of just one patio, and we again assured them that we couldn't afford anything of that type. They said that they would give us a special price on it. However, it could cost us nothing because all the patios that were sold in the vicinity would bring us a bonus of \$25. And that they were to bring people to our house to see the patio. We finally did sign the contract that evening.

Senator BENNETT. For how much?

Mrs. HILLEGAS. For \$690.

The following morning they brought the materials to our property and left them there, and then I believe it was either later that day or the next morning that they started to actually construct, and the workmanship was terrible. Within a year it was completely falling apart. The firebricks would pull apart with your hand. You could lift the red brick topping off which wasn't tile as specified in the contract, it wasn't the specified size in the contract. It didn't have the foundation specified in the contract, and we have had no \$25 bonuses of any type.

Mr. SIMON. Did they ever bring anybody around to look at your patio?

Mrs. HILLEGAS. Never.

Senator BENNETT. Mrs. Hillegas, the newspaper reporters did not get your address.

Mrs. HILLEGAS. 1803 Fleming Street, Pomona, Calif.

Senator BENNETT. Are you paying off on this note?

Mrs. HILLEGAS. We did for quite a long while to the extent of \$500 some. Then we quit paying, hoping that somehow we would get an investigation by FHA and could appeal the case.

Mr. SIMON. Who holds your note?

Mrs. HILLEGAS. The Bank of America at 30th and Vermont did hold it. However, it has been turned over to FHA.

Mr. SIMON. FHA had to buy the note from the bank when you stopped paying?

Mrs. HILLEGAS. Yes.

Mr. SIMON. And they still want you to pay the balance?

Mrs. HILLEGAS. Yes. They threatened to sue us regularly.

Senator BENNETT. Did you make any attempt to find these people?

Mrs. HILLEGAS. Yes, we did. We wrote a letter—I wrote a letter to the company. We also went to the bank at 30th and Vermont. I can't remember the date of that visit. My husband and I went. We were told that the bank—that branch of the bank no longer financed any papers for the Superior Construction Co. because they had had some complaints, and so many people had been defrauded.

Mr. SIMON. When was that?

Mrs. HILLEGAS. I can't remember the date of that visit. It was probably, I believe, within a year following the installation of the patio.

Mr. SIMON. When was the patio installed?

Mrs. HILLEGAS. November 1949.

Mr. SIMON. So you would say that would be before November 1950?

Mrs. HILLEGAS. I hate to state a positive date, but I could check on that.

Senator BENNETT. Approximately?

Mrs. HILLEGAS. Yes.

Mr. SIMON. What branch was that?

Mrs. HILLEGAS. Thirtieth and Vermont here in Los Angeles.

Somehow or other our name reached Mr. Adams, of the State contractors' license board, and he came out and visited us and saw the condition of the patio. He helped us get in touch with Superior Construction Co.; either that or our attorney did. I can't remember. But Mr. Lockman, who was president of the company, came out to our house one afternoon; he and Mr. Adams and the building inspector of Pomona, a very well known contractor in Pomona, Mr. Hernandez, were at our home. They looked over the patio, which wasn't safe to walk across for any children at that time. Mr. Lockman agreed for his company to reconstruct the patio and to make it agreeable with the contract. They did reconstruct it. It is holding together, except for a crack clear across the flagstone flooring, but it still doesn't meet the specifications of the contract at all.

Senator BENNETT. Did they just patch it back together?

Mr. HILLEGAS. Yes; they did. They did tear out quite a bit of the wall and put fresh mortar. They had to because the mortar would just crumble in our hands.

Senator BENNETT. Maybe you are really more fortunate than some other people because you did get something done to your patio, even though it is not completely satisfactory. It is better than it was.

Mrs. HILLEGAS. It isn't as represented the night they originally came to our house.

Senator BENNETT. Did they give you any cards to give to other people?

Mrs. HILLEGAS. Yes; they did. I gave them the names of several people. I can't remember just how many. We had no response on that at all.

Senator BENNETT. Well, thank you very much, Mrs. Hillegas. I am sorry that the FHA has no power to refund your money. I am afraid you have signed the note, which eventually you must pay.

Mrs. HILLEGAS. Well, would there be any future in appealing the case?

Senator BENNETT. You haven't anything to appeal on because they have your signature on the note. The FHA——

Mrs. HILLEGAS. And the fact that our credit application, which we thought was just a matter of form at the time because it wasn't going to cost us anything, I don't believe that should have been accepted at any bank. We were well under financially at that time. I was just wondering if that would make any difference?

Senator BENNETT. On these FHA title I loans, the bank has no credit risk because the Federal Government will make good the default as far as the bank is concerned. Now, that simply means as far as you are concerned that after the bank has asked you to pay the note, and you have quit paying, they turned the note back to FHA, who are asking you to pay the note, and if you don't pay the FHA one of these days you will get a letter from the Federal district attorney.

Mrs. HILLEGAS. We have.

Senator BENNETT. All right. He will ask you to pay the note, and I am afraid eventually you are going to have to pay the note.

The bank had all of that other power behind it, so that they would have been pretty safe in making you the loan if you had no credit standing at all.

Mrs. HILLEGAS. I see.

Senator BENNETT. I am sorry.

All right. Thank you, Mrs. Hillegas.

We now have Mr. Albert Hall.

Is Mr. Hall here?

Will you be sworn? Do you solemnly swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF ALBERT HALL, LOS ANGELES, CALIF.

Mr. HALL. I do.

Senator BENNETT. Will you take the chair and identify yourself for the reporter, please.

Mr. HALL. Albert Hall, 5981 West 76th Street, Los Angeles 45.

Mr. SIMON. Mr. Hall, do you own your own home?

Mr. HALL. We are paying on it. We own part of it. The State and I do, anyway.

Mr. SIMON. Did you have an FHA home loan improvement within the last couple of years?

Mr. HALL. Yes; slightly over 3 years ago.

Mr. SIMON. Would you tell us about it.

Mr. HALL. I received a telephone call. I wasn't in at the time and called back, and this fellow wanted to know if I would be interested in getting a mastic paint application to my home at no charge to me.

Mr. SIMON. No charge to you?

Mr. HALL. No charge, and I said yes, I had been somewhat interested in the mastic, so he made an appointment to come out that afternoon about 6 o'clock, and about the time specified a salesman came to the door, introduced himself as a Mr. Pat Mack.

Mr. SIMON. Pat Mack?

Mr. HALL. Yes, Pat Mack. He explained his big boss was along trying to teach him some of the tricks of the trade, and he was out in the car and he didn't want to waste his time unless we were interested, and would we be interested, and I told him I wanted to know what the story was on the stuff first, so he said that his boss' name was Mr. Herbert DeBrown, and he was sales manager for Enterprise Construction Co., on Wilshire Boulevard, approximately the 7400 block.

He also explained that Mr. DeBrown had some ulcers, and when he came in would we kindly get him a glass of water and a spoon of baking soda and put it in it and set it down on the table beside him and not mention it or make any note of it, which we did.

They came in and gave us a pretty high pressured line. They showed us a demonstration and the pamphlet from the Navy Ordnance on gunite, which I had some information on before. My small children had had colds and gone into pneumonia in the district we had lived in before, and I was interested in insulating the house and also I was interested in some type of paint which would last more than conventional-type painting, and they had two points which they interested me in. Finding that out they made the most of it. They showed me a sample mastic paint, which was approximately one-eighth of an inch thick, and they said that it was approximately one-eighth of an inch thick and showed me the stretchability of it, fire resistance, and a little chemical test of putting it in a glass of water and watching it congeal and they offered—finally I had quite a time getting the price information out of them, what it was going to cost. This was going to be another one of those sample homes.

Mr. SIMON. Model home?

Mr. HALL. Model, to show, and they wanted to know if it would be all right if they put signs up in the front yard, and so forth, and I said of course.

Finally, I said "This all isn't going to be done for nothing." "Oh, no, but you will probably get it done for nothing because we will pay you \$25 for each home in this neighborhood that we do do as a result of your demonstration." But they said "Meanwhile, you will have to sign a contract," and they measured the house. They wanted about \$1,400. I said I was not interested in such a proposition as that. They started coming down and finally came down to \$1,120, and then they wanted me to give them \$100 down. Well, I still welched at that. I wasn't interested too much and wanted to get rid of them and didn't want the job at all.

I left to answer the phone. They talked to my wife pretty strongly. They got her pretty well interested in it. I am not blaming it on her, but I came back and she was pretty well sold on the deal. They had agreed to give her \$80 in commissions and make that as part of the downpayment, and we would give them a check for \$20, so they

signed a receipt that we would give them \$100 down, and we owed the balance of \$1,020.

Mr. SIMON. What was the \$80 for?

Mr. HALL. He said he knew that he was going to sell that many houses off of us and the \$80 would be advance commissions off of the houses.

We signed the papers and the next day they were out there with a sandblasting outfit. A neighbor lady called the city building department to see if we were allowed to sandblast in that area. They got by with the sandblasting all right. They sandblasted the house very well, took the old paint off, then they came in the next day with a mastic application set, a large compressor and large spray gun, a couple of barrels and mixing paddle and started mixing it on. My wife called me at work and said this stuff they were putting on is water. They mix it with water. The stuff that they had represented to me was actually an oil-base paint. By the time I got home that night the house was painted; and, of course, they were going to do all the windows, sash and trim, and they came right behind the gun painting that on and all the perlite, or blowback from the spray gun just landed right on top of that and made a very good mess of it.

I raised immediately a question on the water-base mastic. Also the applicator—getting just a little bit ahead of the story—when he finished that night, it was fairly late, about 7 o'clock, they finished doing the touchup and the subcontractor's name was Jerry Stiegler. He drove an old car, was shabbily dressed, and he came in with a blank form, no name on it. I believe it is the same type of form that the Bank of America uses as a job completion.

Mr. SIMON. Completion certificate?

Mr. HALL. Completion certificate. He wanted me to sign it. I refused to sign it, and to make a long story short we argued on it for about 3 hours, him pleading and practically down to the point of tears, pulling his handkerchief out, that he couldn't pay off his men or couldn't move the equipment off the premises, and go on to another job, and he had to make a living, so I finally agreed to sign it on the condition that he would guarantee that they would come back and complete the job right, with a different type of mastic. I got his signed note witnessed to that. He left a bucket of cement, which he was using to patch up a couple of holes out by the kid's playpen. My little boy got into the cement and burned his eye, which cost us a little bit in doctor bills to have it taken care of. It has gotten all right since.

We went back to the Enterprise Construction Co. on this and they settled with us for \$200, about what is cost me in doctor bills on the boy's eye. In return for me signing a statement that if they came out and re-did the job and it met the specifications of the contract that I would be satisfied, and that I would also return to them Mr. Stigler's note, which I did, and they came back out, sent another man out and reshot the house, but they had promised to blast off this water mastic again. They shot the house then with an oil-base mastic paint, over the water base, and, of course, any painter, contractor, can tell you what that will do as far as sticking to the house.

They had guaranteed they would cover all cracks and that there would be no chipping and peeling, and even on the question of the woodwork.

That is about the extent of the application. I paid on it in the neighborhood of 4 or 5 hundred dollars. Immediately afterward I got a notice it had been assigned to the United Credit Corp., and after investigation and a district attorney's office at that time, it was owned by the same people who owned Enterprise Construction Co., being it's not exactly up to snuff as far as the law is concerned, I believe. They sold out to another company, and now I find that they have sold the paper to the Bank of America, an institution which I had high respect for, and have been banking with them ever since I came to California.

I paid off the note, up somewhere around 4 or 5 hundred dollars, and by this time I had seen that I also had this desert rose, and it was fading pretty badly. They didn't cover all the cracks, and I had called them, I had written them letters. We have just about a dozen copies explaining my dissatisfaction with the results of it, and asking them to do it right. I found that—I now find that it is peeling, cracking, and chipping, and is not at all as represented nor contracted for. I had refused to make any further payments on it.

I finally find that the office of Arnold J. Provisor, apparently either a collection attorney for the Bank of America or something, is suing me. I was served with papers stating that they were suing me, and also that my wages at the time I worked for Douglas Aircraft, Santa Monica division, and had for the past 12½ years, my wages there were being garnisheed. I have since left them, since it wasn't possible for me to get along very well on half of my wages, and I have a lawyer assigned to the case. I have discussed the matter with the district attorney's investigators. We are filing a cross-complaint, and the Enterprise Construction Co. will be faced with a lawsuit for the damages to my home.

Senator BENNETT. The sad thing about that, Mr. Hall, is that the Enterprise Construction Co. is out of business.

Mr. HALL. I understand, we have a notice that their license has been taken away from them.

Senator BENNETT. That is right.

Mr. HALL. Is there no law in the State that, or in these United States, that does not make them guarantee or back their previous contracts?

Senator BENNETT. If you can find them in the first place. The Enterprise Construction Co., as I understand it, doesn't exist any more. Now, the men who operated the Enterprise Construction Co. are still in existence, and if you can find them and if you can prove that they as individuals made the contract, and that they broke the contract, then perhaps you have a chance, or participated in a fraud.

Mr. HALL. Senator, in one of your previous statements you stated that the bank bought the paper, and that they apparently had full right to do so, and were getting full value received. As a usual thing when a bank buys paper on an automobile and other substantial items they take a look at the property to see that it actually exists, and the condition that it is in, to be worth the amount they are loaning on.

Senator BENNETT. In this case the bank knows that if it can't collect that money from you it can turn the account over to the FHA and get its money from the FHA.

Mr. HALL. Even knowing that the bill hadn't been paid on for some months at the time they bought it?

Senator BENNETT. That is right. The FHA will guarantee to pay—this was true. It is not true under the law now, but I think with respect to your loan, which they bought prior to the change in the law this spring, they can be reimbursed up to an amount equal to 10 percent of the total value of all FHA title I loans they ever made, so that that is in effect. That operates to become an effective guaranty of all the losses that they may be faced with, because the record shows that far less than 10 percent of these notes are not paid out.

Mr. HALL. Is there any point of law we can prove the bank did not buy the paper in good faith?

Senator BENNETT. No. I think you will find the bank bought the paper in good faith. You certainly should explore it. If you can prove that the Enterprise Construction Co. participated in a fraud, and that their operation was not in good faith, and you can prove that though the Enterprise Construction Co., which is no longer in existence, the people who were the principals of that company are themselves personally responsible for the fraud, then you can have a civil suit against them.

Am I right?

Mr. SIMON. That is right.

Senator BENNETT. I am not a lawyer, but as a matter of practical fact, since the Enterprise Construction Co., which was a corporation, is now out of business, I don't believe you can find anybody to sue.

Mr. HALL. Well, frankly, I would admit my fault in being sucked into such a deal and would probably have gone ahead and maybe paid off the amount and chalked it up to experience, but I did want to explore the possibilities of stopping it from happening to other people and bring it to a legal point to see if there was anything that could be done and possibly help some of these other people who also have been victimized in similar circumstances.

Senator BENNETT. I think you have helped by your testimony. I think the most effective weapon we have against that sort of process is the weapon of publicity, but unfortunately they sold you something far beyond its value and there is nobody left.

Mr. HALL. I appreciate your efforts, Senator, and also the district attorney's office in town for at least investigating. Sometimes results are not the important thing, but to know there are agencies trying to stop something. That helps a little bit.

Senator BENNETT. Did they do this whole \$1,100 job in 1 day?

Mr. HALL. Yes.

Senator BENNETT. How many men?

Mr. HALL. Well, outside of the sandblasting, which they had 2 men out with the sandblasting truck. They did that in about 4½ hours. Then the painting job, actual application of the mastic paint, and the followup, painting sashes and doors, et cetera, took them from—I understand they got to the job about 7:30 in the morning and they finished about 6:30 that night, 2 men.

Senator BENNETT. So that is 11 hours, 10 hours with time out for lunch, 10 for 2 men, 20 hours?

Mr. HALL. That would pay for a lot of markup, jobbers, salesmen's price, and everything.

Senator BENNETT. Here you have labor of 30 hours on a job, and when I was active in the paint business we used to calculate that the labor was worth twice as much as the material, or cost twice as much

as the material, so you have the equivalent of 45 hours of labor, which at \$2 an hour would be \$90, for which you paid \$1,100. I may not be entirely fair. The material may have cost the contractor more than that, and I recognize he was putting it on with a spray which would upset this balance of mine.

Mr. HALL. I think with equipment, investment, and so forth, that a more than fair price for the entire operation would range from \$350 to \$400, and I think that is a pretty close estimate about what one should make on the capital investment, equipment, and so forth.

Senator BENNETT. So you paid more than twice—from twice to three times what the job could have been done for by a reputable contractor?

Mr. HALL. Yes.

Senator BENNETT. Thank you very much, Mr. Hall. We have still a number of other people who would like to tell us their story. We appreciate your coming up.

Mrs. Pierce, would you come back to the stand, please?

TESTIMONY OF MRS. VIVIAN PIERCE, PUENTE, CALIF.—Resumed

Senator BENNETT. Mrs. Pierce, you have been sworn?

Mrs. PIERCE. Yes.

Senator BENNETT. Would you like to read into the record this statement that you gave to us?

Mrs. PIERCE. Yes.

The salesman of our mastic job definitely said Mr. Ham, of the Glendora Branch, Bank of America, would grant the FHA loan. His assistant, a woman, said what a wonderful person Mr. Ham was, and he was instrumental in granting all their financing in this area.

Senator BENNETT. Did the woman to whom you refer in that statement—did you meet her in Mr. Ham's office, or was that someone who came to your door?

Mrs. PIERCE. No; the woman was with the salesman, a Mr. Roe.

Senator BENNETT. In other words, there was a woman with the salesman who sold you the job who said she was the assistant to Mr. Ham?

Mrs. PIERCE. No. She was assistant to Mr. Roe, but they said they were friends of Mr. Ham, and he was the manager of the Bank of America in Glendora, and that he was granting all of their FHA loans in that area.

Mr. SIMON. Do you know Mr. Ham's first name?

Mrs. PIERCE. No; I don't.

Senator BENNETT. Did you ever meet Mr. Ham?

Mrs. PIERCE. Yes. We did a considerable time later. We talked to him over the phone. When we went to sign this completion slip, I said over the phone, "Mr. Ham, do you know they are asking us to sign a completion slip on this whole job," and he said, "Well, we have this other contract here which shows they can't possibly complete the job until the walls are up. They are a reputable company and will complete the job," he said.

Senator BENNETT. He encouraged you to sign the slip?

Mrs. PIERCE. Yes.

Senator BENNETT. He knew and you knew when you signed that slip that the job was not completed?

Mrs. PIERCE. Yes. The evidence is in the bank. We saw it just a little while ago.

Senator BENNETT. We will call Mr. Richard F. Aldrup.

Mr. Aldrup, will you be sworn?

Do you solemnly swear that the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ALDRUP. Yes, sir.

TESTIMONY OF RICHARD F. ALDRUP, NORWALK, CALIF.

Senator BENNETT. Mr. Aldrup, will you give the reporter your name?

Mr. ALDRUP. Richard F. Aldrup, 14619 Disney, Norwalk, Calif.

This was also a patio, which runs along the same lines.

Senator BENNETT. What was there in your experience that was different than that of some of these other people?

Mr. ALDRUP. Well, when I stated that I couldn't afford it at this time, that we had a car that finished up in September of 1952, they were out in May of 1952, that I couldn't take any more obligations, they said that they would pay the first three payments. In other words, the Angeles Builders. This was the Angeles Builders, in Beverly Hills, I believe, California, and they said they would pay the first three payments, and my first one would be in October of 1952, so it went on. The price was \$740, plus interest, and they showed pictures, of course, of all different types they had, and the one they built wasn't like the one that was in the picture that we had chosen, and the final completion of it, I told my wife not to sign it, and they told her it wasn't the completion, which it was.

Mr. SIMON. They told her it was not a completion certificate?

Mr. ALDRUP. That is right.

Senator BENNETT. Did they tell her what it was? How did they explain it?

Mr. ALDRUP. They said it was so they can get their money for it.

Mr. SIMON. So the workmen could get their wages?

Mr. ALDRUP. That is right.

They would have put it in the next day but it rained and they delivered the materials the next day and built the surrounding foundation and finished it the next day, and the reason why I first started—I stopped payment to the Bank of America was because I felt that was the only way to get action so I stopped payment in December 1952, and didn't start payment to the Government. It was automatically turned over to the Government because they insured it.

Senator BENNETT. You have handed us copies of two letters, one addressed to you by Henry Beller, and the other addressed to you by an attorney, Arthur Livingston.

Will you explain to us what the meaning of this arrangement represented by these letters is?

Mr. ALDRUP. Well, for the last 2 years we have been trying to get a settlement with Mr. Beller. We want him to fix the patio, but as I understand the better business bureau put him out of business. Naturally you can't have it fixed when there is nobody to fix it.

The next stop was to try to get a settlement on the price of it, and we were told he was a sick man and couldn't be contacted.

Mr. SIMON. Who was sick?

Mr. ALDRUP. Mr. Beller. So finally we did contact him at his—has a dress shop in Hollywood, and we finally contacted him and maybe we will get him—if he answers the phone you get to talk to him, otherwise you don't, so we finally called him, maybe every day, until we finally got him, and he has sent this letter to me. There were three copies, supposed to be signed by me and returned back to Mr. Beller. He would sign one and send it back to me. As yet he hasn't signed it and sent it back, but I received \$20 on this \$300 settlement.

Senator BENNETT. As I read this letter, you and Mr. Beller agree—you agree to continue to pay the payments due on the account until they are paid in full, and he agreed to pay you \$10 a month so long as you make your own payments?

Mr. ALDRUP. That is right, and he doesn't die.

Senator BENNETT. There is nothing in here about his dying, but if for any reason you cease or are unable to make a payment then he no longer has to pay you the \$10 a month?

Mr. ALDRUP. That is right. I don't know where he would find out whether I wasn't making payments or not, but I guess he could.

Senator BENNETT. You say you signed this form and he never signed it and returned it to you?

Mr. ALDRUP. That is right.

Senator BENNETT. Did he ever pay you any money?

Mr. ALDRUP. Twenty dollars. I have a whole lot of this. Here is a picture of the thing.

When this construction company sent this book to the bank, the bank sent it back to the construction company. It didn't even see me until the time for the fourth payment. Is that quite often used?

Senator BENNETT. I can't answer with respect to the practices of Mr. Beller, or the bank.

Mr. ALDRUP. I also thought the Bank of America would send it to me. It was in my name with my address on it. Unless there was some inside connection I can't see where they would mail it to the Angeles Builders.

Senator BENNETT. I can't answer the question of why they did that. Thank you very much, Mr. Aldrup.

Mr. ALDRUP. I would like to state one thing, though:

If the better business bureau can't do you any good, the FHA doesn't do you any good, you might as well pay it and shut up; is that right?

Senator BENNETT. Unless you can prove that you have been defrauded, in which case, Mr. Aldrup, you may be more fortunate than some of these other people. Apparently Mr. Beller is still around and there is an opportunity for you to recover something from him. Apparently you will have a chance to get \$300, you say, at the rate of \$10 per month?

Mr. ALDRUP. Yes.

Senator BENNETT. I think maybe you are fortunate, if you can get that. For many of these other people, the company with whom they signed the contract has gone out of business and there is nobody they can reach to whom to present their problem.

Mr. ALDRUP. Is it up to the people to judge by a picture how much a thing is worth rather than have somebody come out from either the Bank of America or somebody to see how much it was worth?

Senator BENNETT. I am afraid that you have the responsibility of making the decision, or you had the responsibility, of deciding whether or not you wanted to buy that patio. If you had any question in your mind you had an opportunity to find somebody else who built patios, who might have given you a price with which you could compare it, but certainly the FHA nor any other Government agency, can tell you in advance what that particular operation—whether it is fairly priced or not.

Mr. ALDRUP. I see.

Senator BENNETT. I am sorry.

Now, we will call Mr. Steinmeyer, of the Bank of America.

Mr. Steinmeyer, will you come forward?

(Discussion off the record.)

Senator BENNETT. Mr. Steinmeyer, will you be sworn:

Do you solemnly swear the testimony you are about to give in this investigation is the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF HUGO A. STEINMEYER, VICE PRESIDENT AND COUNSEL, ACCOMPANIED BY EDWARD R. BENTON, ASSISTANT CASHIER, BANK OF AMERICA

Mr. STEINMEYER. I do.

Senator BENNETT. Mr. Benton, will you be testifying?

Mr. STEINMEYER. I might ask him for some information.

Senator BENNETT. Do you solemnly swear that any testimony you will give in this investigation will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BENTON. I do.

Senator BENNETT. Will you identify yourself individually to the reporter, please?

Mr. STEINMEYER. Hugo A. Steinmeyer, 650 South Spring Street, Los Angeles, Calif.

Mr. SIMON. You are vice president and counsel of the Bank of America, Mr. Steinmeyer?

Mr. STEINMEYER. Yes.

Mr. SIMON. Mr. Benton, would you identify yourself?

Mr. BENTON. Edward R. Benton, 650 South Spring Street. My title is assistant cashier in the bank's headquarters.

Mr. SIMON. Mr. Steinmeyer, what is the total volume of loans the Bank of America has purchased or discounted under the FHA title I program?

Mr. STEINMEYER. The total volume of loans discounted under title I of the Federal Housing Act from 1937 to June 30, 1954, is \$813,569,281.

Mr. SIMON. Can you tell us what the amount is since the war, say, beginning in 1946?

Mr. STEINMEYER. I have figures for the period from 1944 to and including the end of 1953, of \$465 million, consisting of 1,023,000 loans.

Mr. SIMON. 1,023,000 loans for \$465 million in that 10-year period?

Mr. STEINMEYER. In the 10-year period from January 1, 1944, to December 31, 1953.

Mr. SIMON. Were all those loans in the State of California?

Mr. STEINMEYER. Yes.

Mr. SIMON. Does that include the whole State, or just the southern half?

Mr. STEINMEYER. No. That is the entire State.

Mr. SIMON. Can you tell us the volume of loans that the Bank of America purchased from the Superior Construction Co.?

Mr. STEINMEYER. I think that I have that figure from Mr. Benton.

Mr. BENTON. May the record show that we keep no individual total by dollar amount as to dealers, in our records. I did cause our records to be examined in connection with this particular dealer, and find that we purchased 1,310 loans for a total of \$944,563.73.

Senator BENNETT. Over what period, Mr. Benton?

Br. BENTON. Over the period February 1949 through the year 1951.

Mr. SIMON. That is a period of not quite 3 years you had just short of a million dollars' worth of loans from Superior Construction Co.?

Mr. BENTON. That is right.

Mr. SIMON. Mr. Steinmeyer, how many times did the Bank of America have notice of improper operations by the Superior Construction Co. prior to the time you stopped doing business with them?

Mr. STEINMEYER. I don't think I can give you the complete information on that, Mr. Simon. I talked with you the other day, with Mr. Wood, the assistant cashier, who related to you an incident in which they had declined a loan from the Superior Construction Co.

Mr. SIMON. Let me say this: You and I talked to Mr. Wood, who is the assistant cashier of your San Fernando branch.

Mr. STEINMEYER. San Bernardino branch.

Mr. SIMON. You will recall he testified that his inspection on the very first Superior Construction Co. loan he made was such that he would never approve another loan for Superior Construction.

Mr. STEINMEYER. That is correct.

Mr. SIMON. Then we talked to another man named Hollenbek who you will recall said that between a third and half of all the FHA title I business in his branch was with Superior Construction Co.

Mr. STEINMEYER. That is correct.

Mr. SIMON. Today we had the testimony of a young lady who said that some time about November 1949, she and her husband bought a patio from Superior Construction Co., and about a year later, she wasn't sure of the exact date—but she felt it was a year later, which would be roughly November 1950—she went to the 30th and Vermont Street branch of the Bank of America and they told her then they were no longer taking Superior Construction paper because of their experience with it. Yet apparently other branches were taking it for at least another year.

Was there any activity in the bank to coordinate the knowledge of one branch with the knowledge of another branch?

Mr. STEINMEYER. Generally speaking, all branches are advised of any restriction placed upon any dealer.

You may recall—

Mr. SIMON. Once you have put a restriction on the dealer I assume you would notify the branch, but I am wondering if when one branch had knowledge of the model home pitch and suede-shoe boy tactics of some of these operators, whether that information was passed on to the headquarters of the bank or coordinated among the branches?

Mr. STEINMEYER. Well, generally, the information was passed on, such as was received by a branch. Now, the incident that Mr. Wood related to you at San Bernardino was relayed to the Vermont and 30th branch, but I understood from Mr. Hollenbek that their experience was not in that way, that they did have some complaints on loans that they had purchased from Superior Construction Co., but that in taking it up with the company the complaints had been remedied to the satisfaction of the borrowers, and you will recall that he also said that in April of 1951, when they learned that the State contractors' licensing board was investigating the Superior Construction Co., that at that time they required a personal inspection or interview with the borrower on every loan that they accepted, and that during that period, from April to November 1951, they discounted about, I think he said about 100 loans. I think the actual figure was somewhat less than that, in which they had contacted the borrower in every instance, and the borrower had been satisfied with the work and had no complaint to make.

Mr. SIMON. Can you give us any explanation, Mr. Steinmeyer, for the fact that Mr. Hollenbek said, as you just testified, that they contacted all those homeowners and there wasn't a complaint, and yet the State contractors' board has got files beyond the ability of one man to read, the Better Business Bureau the same thing, literally thousands of complaints on this one company, and yet your man says he never found a single complaint?

Mr. STEINMEYER. Well, I am talking now about the period from April to November 1951, it is my understanding that after the Bank of America discontinued taking paper from the Superior Construction Co., in November of 1951, that company continued in business, and they placed their paper elsewhere. Now, whether the complaints arose after that time, or not, I don't know.

Mr. SIMON. We have had here a very substantial number of complaints, just in our last 2 or 3 days, in 1949, 1950, and 1951, of Superior Construction Co.

Mr. STEINMEYER. I wouldn't be able to give you more detailed information without examining every loan at the Vermont and 30th branch to determine the number of complaints. Now, the reason that I haven't done that is because Mr. Hollenbek said, and I think in our interview with you that there had been some complaints, but that they had been ironed out with the borrowers, and that the borrowers wound up satisfied.

Mr. SIMON. Mr. Steinmeyer, what is the connection between the Bank of America and Enterprise Construction Co.?

Mr. STEINMEYER. There isn't any connection.

Mr. SIMON. Has the Bank of America ever advanced funds, or had any financial dealings with United Credits Co., whose name is, or a company whose name is something like that?

Mr. STEINMEYER. Yes; the bank has loaned money to United Credits Corp.

Mr. SIMON. To what extent?

Mr. STEINMEYER. To the extent of several million dollars.

Mr. SIMON. What do you mean by several million dollars?

Mr. STEINMEYER. Well, I think that the total loans discounted, or, rather, that the total borrowings were approximately \$10 million, in that area.

Mr. SIMON. Who are the officers of United Credit Co.? That is, United Credits Co.?

Mr. STEINMEYER. I think for a good period of time Mr. L. H. Morgan was chairman of the board of directors. I think he recently resigned.

Mr. SIMON. Who were the other officers? Who was the president?

Mr. STEINMEYER. I think Morgan was president and chairman of the board.

Mr. SIMON. Do you know who the vice president was?

Mr. STEINMEYER. No; I can't give you that information.

Mr. SIMON. Do you know any other officers?

Mr. STEINMEYER. I think a man by the name of Kane was secretary.

Mr. SIMON. Do you know his first name?

Mr. STEINMEYER. I think it is Bernard Kane.

Mr. SIMON. Do you know of any others of the United Credits?

Mr. STEINMEYER. I think the present secretary is a woman by the name of Vivian Grakey.

Mr. SIMON. Where was the office of United Credits?

Mr. STEINMEYER. I think it was in Beverly Hills on Wilshire Boulevard.

Mr. SIMON. Did they have an office of their own; or was their office in somebody else's office?

Mr. STEINMEYER. No. I think they had an office of their own.

Mr. SIMON. At one time did they use one of the branches of the Bank of America as an office?

Mr. STEINMEYER. Not that I heard of.

Mr. SIMON. At one time were notices to people who owed money on these contracts to United Credits sent out saying that the money should be paid at a certain branch of the Bank of America?

Mr. STEINMEYER. I think that is very possible. I don't have direct knowledge of it, but notes that had been discounted by various dealers to United Credits Corp. had been pledged to the Bank of America to secure loans made by the Bank of America to United Credits Corp.

Mr. SIMON. And then United Credit having pledged the notes, the Bank of America then collected on them?

Mr. STEINMEYER. They collected as agent for the bank.

Mr. SIMON. As agent for United Credits?

Mr. STEINMEYER. No; United Credits collected as agent for the bank until a little over a year ago when the bank took over collection directly and then gave notice to all of the borrowers to make payments directly to the bank.

Mr. SIMON. Do the same people own United Credits that own Enterprise Construction Co.?

Mr. STEINMEYER. I can't answer that question. I think that the principals were the same. That is, some of the principals were the same, but I don't know to what extent. I have heard some statements about it, but I am not prepared to give you the correct information because I don't know it. I understand there were a number of changes in their corporate structure which I am not familiar with.

Mr. SIMON. There is a man named Tentzer apparently was the head of Enterprise?

Mr. STEINMEYER. Yes; I think that is right.

Mr. SIMON. Did he have any connection with United Credits?

Mr. STEINMEYER. Yes. I think he was a stockholder.

Mr. SIMON. Was he a principal stockholder—he and his brother, the two Tentzers, were they the principal stockholders in both companies?

Mr. STEINMEYER. I didn't know that he had a brother in the company. I think there was a man by the name of Handel who was also a large stockholder.

Mr. SIMON. In both companies?

Mr. STEINMEYER. Yes.

Mr. SIMON. Who are the people that you dealt with—when I say "you," I don't mean you personally, but the Bank of America—who were the people that the Bank of America dealt with in their financial dealings with United Credits?

Mr. STEINMEYER. Well, I will have to speak on that from hearsay, and piecing it together backward. I think that they spoke with Mr. Tentzer and Mr. Handel, and with Mr. Morgan.

Mr. SIMON. Anybody else?

Mr. STEINMEYER. I can't say. I mean I don't know.

Mr. SIMON. Did you personally deal with anybody else for United Credits?

Mr. STEINMEYER. No. I have had no part in the making of the credits or loans to United Credits. I have become familiar with it later.

Mr. SIMON. Did the Bank of America ever purchase any Enterprise Construction paper directly, or was it merely through United Credits?

Mr. STEINMEYER. No. The Bank of America purchased paper from Enterprise Construction Co. for several years prior to the time that United Credits was organized.

Mr. SIMON. Can you tell us the volume of paper that you purchased from Enterprise before United Credits was organized?

Mr. STEINMEYER. I can't.

Do you know that approximately, Mr. Benton?

Mr. BENTON. Again I have some unaudited figures I picked up just before coming down here. The records that I had made available to me shows that during the year 1947 our Vermont-48th branch discounted 79 title I loans for Enterprise Construction Co.

Mr. SIMON. That is just one branch.

Mr. BENTON. One branch in 1 year.

Mr. SIMON. How many branches did you have?

Mr. BENTON. I believe that was the only action that there was in the United Credits. They were discounting at another bank at that time, and they came over to us at that time.

Mr. SIMON. Can you tell us what was the total volume of Enterprise Construction paper that the Bank of America discounted before United Credits was set up?

Mr. BENTON. Again referring to these notes, 79 loans in 1947, 505 in 1948, 1,832 in 1949; in 1950, the latter part of the year, United Credits was organized, but prior to that time, and in the year 1950, there were 776 loans discounted.

The Enterprise Construction Co. continued to discount with the Vermont-48th branch of the Bank of America, although a large volume was going to United Credits.

During the year 1951, 24 loans were directly with the Vermont-48th branch.

Mr. SIMON. Can you tell us over what period of time the Bank of America advanced or loaned \$10 million to United Credits?

Mr. BENTON. That \$10 was, as I recall, the total advanced to United Credits. There were other banks who made loans to——

Senator BENNETT. You mean there were others who participated in the \$10 million loan?

Mr. BENTON. Yes. It was what was known as a participation loan. The Bank of America had a large share, there was a bank in Dallas and three banks in New York, as I recall.

Mr. SIMON. So far as United Credits was concerned, you were the bank making the loan?

Mr. BENTON. No. We made these loans available to United Credits, and they pledged their individual title I loans as a guaranty for repayment.

Senator BENNETT. Were you the managers for the participating group? Were you the contact with United Credits and did you then sell part of the participation to these other people?

Mr. BENTON. The arrangements that I understand; that is a department under which I have no participation; my understanding of the arrangement was that Mr. Harvey Nielson, who is first vice president of United Credits, contacted the various banks in the East and made arrangements for those loans.

Senator BENNETT. While it was a participation, then, are you telling us that you loaned directly a share of that \$10 million, but you had no part in the operation by which they got loans from either the bank in Dallas or the bank in New York, so that actually your loan to United Credits was on its own feet, your loans were on their own feet?

Mr. STEINMEYER. I think that is not quite correct, Senator.

Senator BENNETT. I want to get it straight.

Mr. STEINMEYER. The agreement was made with respect to the financing, by which other banks joined with the Bank of America, that when the request for the loan, or advance, was made, the Bank of America advanced and the other banks came in with their participation.

Senator BENNETT. That answers the question I asked in the first place. You managed the relationship?

Mr. STEINMEYER. I think that is correct.

Senator BENNETT. The other people, then, came forward with their share of the participation after you had accepted the paper for the group?

Mr. STEINMEYER. That is correct.

Mr. SIMON. Over what period of time, now, was this \$10 million advanced?

Mr. STEINMEYER. I would say—when did it start, Mr. Benton, in 1950?

Mr. BENTON. The latter part of 1950.

Mr. STEINMEYER. The latter part of 1950 until clear up until the early part of 1953.

Mr. SIMON. Are you saying over a period of 3 years United Credits had \$10 million worth of this paper, at least \$10 million worth of it, to discount?

Mr. STEINMEYER. That is right. But that is dealer paper.

Mr. SIMON. Was most of that the paper of Enterprise Construction Co.?

Mr. STEINMEYER. I think the majority of it was; yes, I haven't got the figures on that. It hasn't been analyzed as far as I know to determine.

Mr. SIMON. Did the Bank of America also discount the paper of Atlas Construction Co.?

Mr. STEINMEYER. I can't answer that.

Can you, Mr. Benton?

Mr. BENTON. In answering your telephone request earlier in the day, I found an Atlas Construction Co. listed here in town which had had no experience in title I, and I rather believe that the company you have in mind is the Atlas Home Improvement Co.—

Mr. SIMON. That is right.

Mr. BENTON. With a man by the name of Jack Perlman as the principal. His principal relationship was with our western and Santa Monica branch.

Mr. SIMON. That is the Bank of America?

Mr. BENTON. Yes.

Mr. SIMON. Has the Bank of America discounted paper of the Cardiff Corp., or Cardiff Co.?

Mr. BENTON. The Cardiff Corp., the principal, Mr. Freder Zwieback, has done business with three of our branches, progressively, starting with Vermont-30th branch, beginning May 1949, transferring their activities to the 25th and Central branch, in 1950, and from there transferring to the Western Olympic branch, February of 1953.

Mr. SIMON. Has the Bank of America discounted the paper of the Ross Home Improvement Co.?

Mr. BENTON. The Ross Home Improvement Co., the principals, Mr. Ben Ross, and Mr. Max Goodman, discounted paper during the years 1952 and 1953 at our Vermont-48th branch.

Mr. SIMON. Mr. Steinmeyer, we had testimony here today of a lady that was sued or claim made against her by Arnold Provisor, on behalf of the Bank of America. I also understand he was the attorney for the United Credits Co. Did he represent both companies?

Mr. STEINMEYER. Mr. Provisor was employed as counsel for United Credits Corp., to handle their paper that became defaulted, and he sued on their behalf in the collection of paper. After the bank took over the collection of the paper from United Credits he continued to represent United Credits Corp. in the actions that had been pending, and to that extent, as the bank is pledgee of the paper, I would say indirectly he is representing the Bank of America.

Mr. SIMON. We had the testimony here yesterday of a lady, Mrs. Harter, who said that she had been defrauded in one of these model home, title I repair jobs, and she went to the Bank of America—I forget the branch—but the testimony of yesterday would show—and they held her paper, and she told her story, and they said to her, “You just better forget about it, and chalk this up to experience.” Is that a routine reply that the bank would give a homeowner in that situation?

Mr. STEINMEYER. Well, I don't think that I can answer that question, Mr. Simon. I don't know how often such a situation is presented to the bank, and I have no way of saying what a bank officer might reply to a customer. It would depend upon the circumstances,

and what he thought about the story that the person told, and a lot of other circumstances.

Generally speaking, I would say that where the bank has purchased paper in good faith, it is not in a position to excuse the borrower and release him from payments, because the bank represents stockholders also, and depositors, and if it has advanced money in the purchase of paper in good faith it is obliged to attempt to make every effort to collect it.

Mr. SIMON. I would assume that—and I don't know this to be the fact—but she did say this was shortly after the job was done, and, of course, most of these home improvements companies are in business today and out of business tomorrow, but this was sufficiently soon after the job was done that we might assume the company was still in business. Had she come to me I would have told her to sue the people who had made these false representations to her. I wasn't suggesting that the bank should have told her not to pay the paper that the bank purchased, but I am wondering whether the bank's policy was to protect its customer, the borrower, rather than to let the homeowner pursue the remedies that the law gave her?

Mr. STEINMEYER. Of course, being a lawyer, Mr. Simon, I probably would have given her the same answer that you suggested that you would, but bankers are not always lawyers.

Senator BENNETT. We had another case, a man named Leo Regan, who testified that he went to another branch of the Bank of America, and he was going to do some work on his property, and he borrowed the money, and the contractor was there and wanted the money turned over to him, and Mr. Regan didn't want to turn the money over to the contractor until the work was done, and he said the man at the Bank of America said, "Oh, no, you can turn it over to him now because he is a reputable fellow, and he will do the work," so Mr. Regan turned the money over to him and didn't get his work completed.

Does the Bank of America lend its prestige to these contractors to help them get the money out of these homeowners?

Mr. STEINMEYER. I think again that that is a question that is difficult to answer as a matter of policy. Of course, that is not the policy of the Bank of America. As to the facts in the particular situation, I can't answer. I have found in my investigation of a lot of these things that statements that are sometimes made are not always substantiated by the facts, and there is generally two sides to every story, but I am satisfied that it is not the Bank of America's policy to protect the dealer, if that was the force of your question.

Mr. SIMON. There are always two sides to every story, except that when you hear something once or twice you figure it might be just somebody's whim or fancy, but when you hear it so often from so many people it makes me inquire of you whether the bank was so eager to get the business, and to get the volume of this title I paper, and particularly since it was guaranteed by the Government, that they weren't particularly concerned as to the character or integrity of the dealers who were out selling these jobs?

Mr. STEINMEYER. I am sure that was not the case, Mr. Simon, because it is the Bank of America's endeavor to make loans that are justified to persons who are entitled to borrow the money, and to do it on a sound, legitimate banking basis. I think that the best evidence of what the experience has been in that is the total amount of FHA

loans that the Bank of America has made over a period of 15 years.

Now, this 10-year period in which we made 1,023,000 loans for a total of \$485 million, the total loans that defaulted in sufficient time to file a claim with the FHA were 22,000 in that 10-year period.

Mr. SIMON. Of course, the other side of that coin, Mr. Steinmeyer, is we have had yesterday and today any number of people who came here and are thoroughly convinced they were defrauded but yet feel as any lawyer would tell them, that they had to pay the bank because the bank had purchased the note as a bona fide purchase of value, and they would have to pay, so the mere fact more notes haven't gone into default I don't think means that any other people hadn't been defrauded. Would you agree with that?

Mr. STEINMEYER. Well, it is very possible; in fact, I am sure that it is the case. That of the total amount of loans that have defaulted there is a very small proportion of them where it is claimed that the borrowers were defrauded. Most of these defaults arise by reason of the change in circumstances of the individual. He loses his job or he loses overtime or moves away or any of the other things that cause fatalities to credits.

Mr. SIMON. The defaults are not primarily a matter of the home loaner being defrauded?

Mr. STEINMEYER. That is correct.

Mr. SIMON. On the other hand, the payment of the note by the homeowner is no indication that he wasn't defrauded, but merely that his credit is good, or he wants to keep his credit good, and he is paying even though he honestly feels he was defrauded. Isn't that true?

Mr. STEINMEYER. That could very well be the case.

Senator BENNETT. Mr. Steinmeyer, you have been in the room a little while this afternoon. Were you here to hear 2 or 3 people say or ask what recourse they could have; whether there was any way they could get out of paying the balance of their obligation, which they felt was created under fraudulent circumstances?

Mr. STEINMEYER. Yes. I heard 1 or 2 witnesses.

Senator BENNETT. We have had that more or less repeated with every witness of this type that has been before us, and we have to tell them that the Federal Government has no power to step in and pay that obligation for them. They must go through and pay their obligation, but that still doesn't cure the evil we are here to investigate, which is the fact that there have been literally thousands of people in this State who have paid prices from 2 to 3 times the proper price for the product or the service, and who have made the purchase under conditions that lean very heavily in the direction of fraud, and yet that was only made possible—it seems to me—because those dealers could get financing.

Now, it must have been obvious to the Bank of America, or at least it seems to me it must have been obvious to the Bank of America, long before these people lost their license, that they were acting under those circumstances. Was the matter ever discussed among the responsible officials of the bank as to whether or not they should continue to support this kind of a program?

Mr. STEINMEYER. Well, whenever a complaint was made against a dealer by a borrowing customer, it was the practice of the bank and our procedure contemplated that the complaint would be investigated

by the branch which had discounted the paper and the dealer would be required to work it out to the satisfaction of the borrower.

Senator BENNETT. At this point I have here in my hand a letter that was handed to me by Mrs. Hillegas, who testified a few minutes ago. I would like to bring Mrs. Hillegas back into the discussion, if you please.

This letter is dated April 26, 1950, signed by Mr. Hollonbek, assistant cashier of the 30th and Vermont branch. It says—addressed to Mr. and Mrs. Hillegas:

We wish to advise you we have discussed your complaint against the patio installed on your property by the Superior Construction Co. with them and they assured they would send someone out to take care of this complaint. Your loan is now delinquent for the April 1 payment in the amount of \$22.04, and it will be necessary for you to forward that amount.

In other words, the first half of the letter says "We have discussed this matter with Superior Construction." The second half of the letter says "You owe the payment," and it is very politely written, but please remit the payment.

Mrs. Hillegas, did Superior Construction come out as a result of that letter?

Mrs. HILLEGAS. They did not. I made repeated phone calls to Superior Construction Co. and also to the bank after receiving that letter. They didn't come out until they came out one day when Mr. Adams and the other building inspectors were there, and they were practically pushed out to our house.

Senator BENNETT. In other words, is it a satisfactory answer to write the borrower and say "We have discussed this problem of your complaint, we hope it will be fixed. Please remit"?

Mr. STEINMEYER. Ordinarily, I would say that would not be a satisfactory answer, but I am not in any position to have any knowledge as to the particular situation that you are talking about, because this is the first time I have heard about it.

Senator BENNETT. Can you say to us that it was the policy of the bank to make sure that after such a discussion had been had, as it obviously had—I am sure Mr. Hollenbek talked to the Superior Construction Co.—were you interested further to make sure the Superior Construction Co. had done anything about it, or do you feel that satisfied your obligation?

Mr. STEINMEYER. No. I would say it was definitely the policy of the bank that when complaints were made that they should be carried through to conclusion and the customer satisfied.

Senator BENNETT. Let me ask you a hypothetical question: Suppose Superior Construction had said "Well, these people are just troublemakers. We are not going to do anything about it." You then, of course, would have gone ahead to collect the account. Would you have been interested to find out whether these people were troublemakers, and Superior was in the right or wrong?

Mr. STEINMEYER. I think we would have, Senator. I can recall instances where matters have been brought to my attention over the period of time, where at times complaints are valid and require adjustment, and at times, as you say, they are troublemakers and many of the complaints are imaginary. I have no idea as to this particular transaction. This is the first I have heard of it, and I am not attempting to give any answer as to this transaction.

Mr. SIMON. Mrs. Hillegas, did you personally talk to Mr. Hollenbek?

Mrs. HILLEGAS. I wrote a letter to Mr. Hollenbek stating the condition of the patio and also the fact that we had been with the understanding that the patio wasn't to cost us anything and the time that the contract was written we were not in a financial position to pay for it.

Mr. SIMON. You did tell him that they had used the model-home approach?

Mrs. HILLEGAS. Yes.

Senator BENNETT. Did you save a copy of your letter to Mr. Hollenbek?

Mrs. HILLEGAS. It was a handwritten copy. This is a reply to that letter, however.

Mr. SIMON. The reason I asked the question, Mr. Steinmeyer, you will recall the other day Mr. Hollenbek told us that he had been with 3 different branches of the Bank of America in a period of 5 or 6 years, I believe, and that the Superior Construction Co. followed him from branch to branch. That is, as he moved from one branch to another they took their business out of that branch and followed him around.

Mr. STEINMEYER. I think that he said that they moved from Vermont and 30th branch, where he had been for about 4 years to 25th and Central, but when he left 25th and Central that they did not move.

Mr. SIMON. Am I correct in my recollection that they moved with him at that time because he was so familiar with their operations?

Mr. STEINMEYER. I think that is what he said, that the reason they gave for the request to transfer their business was that the branch where he left did not have an experienced man handling the paper, and he did.

That particular transfer, incidentally, Mr. Simon, was approved—I mean the transfer of the business was approved by the manager of both branches, and also by the supervisory authorities of the bank, so it wasn't just a secretive transfer of the business from one branch to another.

Mr. SIMON. Did the Bank of America have a man working for them named Johnson who discounted title I paper?

Mr. STEINMEYER. Yes.

Mr. SIMON. Is he the one who was involved with this Kushner Co.?

Mr. STEINMEYER. That is correct.

Mr. SIMON. In that case the Bank of America discounted home-improvement paper on nonexistent homes? Isn't that right?

Mr. STEINMEYER. Well, I think that that doesn't quite accurately describe it, Mr. Simon. I have not investigated every transaction in that particular situation, but it is my understanding that in essence the loans were reported as an application for an improvement to an existing structure, but when in fact there wasn't an existing structure.

Mr. SIMON. Isn't that another way of saying what I just said?

Mr. STEINMEYER. I don't know whether it is or not because it didn't apply to all of the situations. There were situations and loans where there was an existing structure, and the purpose of the loan was to furnish the materials with which to build a structure.

Mr. SIMON. Was Mr. Johnson indicted in the Kushner case?

Mr. STEINMEYER. Yes, he was.

Mr. SIMON. Has the Bank of America agreed with the United States Government to buy back at least a substantial part of that Kushner paper?

Mr. STEINMEYER. We have agreed to purchase—to repurchase some of the paper; yes.

I should like to add that that is a matter that I am familiar with, because I handled it personally with the Government authorities, and the basis for our agreement to repurchase the paper was that we felt that if the Federal Housing Administration really considered that they had not been treated fairly in that transaction, that we were willing to buy it back without any implication of liability on the part of the bank.

Mr. SIMON. What is Johnson's first name?

Mr. STEINMEYER. Fred.

Senator BENNETT. For my information, who executed those notes? Were they forgeries or were there actual people who executed the notes on these nonexistent houses?

Mr. STEINMEYER. There were actual people, Senator, and it is my understanding that there were a large number of transactions. The total loans were about \$1,400,000, or \$1,300,000. It is my understanding that in most of the situations that are complained about by the FHA the loan was for the purpose of purchasing ready-cut lumber, which was sold to the individual, who used it to build a house.

Senator BENNETT. The point I am trying to get at, the people who executed the notes—the note may have been improperly handled—but the people who executed the notes got proper value for their notes?

Mr. STEINMEYER. That is right. They were actual borrowers but the great number of them have actually paid out. The default in those particular loans was higher than the average, but the great majority has paid off, and in nearly every instance it is my understanding that they got actual value. In other words, they got lumber that was all cut to build a house.

Now, technically, that was not eligible for FHA insurance, and to that extent the salesman who sold the deal and the borrower who signed the application stating that it was for the purpose of adding to an existing structure were making false representations, and that was the basis for the criminal proceeding.

Senator BENNETT. Why did the Bank of America discontinue purchasing Superior Construction paper?

Mr. STEINMEYER. It is my understanding that the reason for it was that upon review of the account it appeared that the delinquencies on the loans were higher than they should be, and for that reason they were discontinued.

Senator BENNETT. Is the same thing true of the Enterprise Construction?

Mr. STEINMEYER. Well, no. I don't think that that is correct as to Enterprise Construction, because we discontinued mainly purchasing from Enterprise Construction Co. when United Credits was going, and United Credits loaned them the money, or purchased their paper, and borrowed money from the banks.

Senator BENNETT. Enterprise is out of business now, which would in effect mean that United Credits is not buying any more paper?

Mr. STEINMEYER. I think that is correct.

Senator BENNETT. So to the extent you are involved in paper that came to you through United Credits, you are simply liquidating the previously acquired paper?

Mr. STEINMEYER. That is correct.

Mr. SIMON. Did I understand from your answer to Senator Bennett, Mr. Steinmeyer, you are discontinuing doing business with Superior because of the high number of defaults and the unprofitable nature of the business rather than the fraud practiced by the company?

Mr. STEINMEYER. That is correct. The reason for that was that during that period in 1951 we had examined every loan that we took, and had a satisfactory report on it.

Mr. SIMON. Mr. Steinmeyer, as you know there are tens of thousands of dealers in the United States who deal in title I home repairs.

Mr. STEINMEYER. Yes.

Mr. SIMON. And more than a thousand banks. The nature of the program being what it is, the Federal Government guaranteeing the banks against loss, don't you think the bank's responsibility to both the Government and the community, to be selective and careful in who the banks approve as dealers?

Mr. STEINMEYER. I think they do, and I think that they endeavor to live up to that responsibility. I am sure that the Bank of America has.

Mr. SIMON. Let me get it one piece at a time. You do agree it is primarily the responsibility of banks to see that the dealers that the bank approves are proper, ethical businessmen?

Mr. STEINMEYER. Well, the FHA regulations require, as a condition to the insurance, that the lending institution make an investigation of the dealer, and be satisfied that he has the ability to handle the particular jobs that he does, and that he has the financial responsibility to enable him to carry out his undertakings.

Mr. SIMON. Don't you feel that in becoming satisfied, that the dealer has that financial responsibility, and that integrity, that you just referred to, that the banks ought to make a real examination and not merely become automatically satisfied by the fact that there is a Federal guaranty of the paper?

Mr. STEINMEYER. I think that the banks do make a real investigation.

Mr. SIMON. I was going to take one piece at a time.

Do you agree that the banks do have a responsibility to make that real investigation?

Mr. STEINMEYER. Yes, I do.

Mr. SIMON. What facilities does the Bank of America have for investigating the work done by these home repair contractors?

Mr. STEINMEYER. If you mean do we have engineers and appraisers to go out and examine the work that they have done, we have no such facilities.

Senator BENNETT. What facilities do you have?

Mr. STEINMEYER. We inquire into their experience. We examine their place of business. We check their credit references, their bank references, the contractors' license board, and the fact that they have been issued a license by the State of California as a contractor is certainly some indication that they have the ability to do the work, and I would think that to a great extent, that a lending institution could rely upon that.

Mr. SIMON. Do you think the lending institution could discharge its responsibility by relying on the license of the California State Contractors Board?

Mr. STEINMEYER. Well, if we couldn't rely on the license the next step would seem to be that we would have to go out and determine through a process of hearings whether the man was a competent contractor. I don't think that a bank is in a position to do that.

Mr. SIMON. You do feel, though, that the bank should be able to rely on the fact that they have a license in the State?

Mr. STEINMEYER. Yes; I think so.

Mr. SIMON. Are you aware of the fact that most of these companies—and by “you,” I don't mean you personally, but the bank—that most of these companies like Superior were really no more than brokers? They would hire a bunch of suede-shoe salesmen and the contracts they would get they would subcontract to another contractor?

Mr. STEINMEYER. That is a matter of description. I don't know that I could go along with you. I think our records would show that the dealers that we did business with were responsible business people. They had been established, they had assets, they had a place of business.

Mr. SIMON. I understand they did not actually do the physical work or mechanical work, themselves, but subcontracted it to others?

Mr. STEINMEYER. I can't answer that because I don't know. That is not uncommon, I know, in any sort of contract work, to employ a subcontractor.

Mr. SIMON. I take it the Government could almost as well get a list of people who have a contractor's license to find out who reputable people are rather than having the bank make the investigation. I am a little surprised, frankly.

What surprises me is we have the tail chasing the dog. Mr. Adams of the State contracting bureau testified here yesterday that when they had a large volume of complaints against one of these companies they would like to get the FHA to put them on the precautionary list, or get the bank to cut off their credit. That would stop their operations immediately, whereas the contractors licensing board could only take away their license by a prolonged administrative proceeding, with public hearings and due process, and all of the delays that are attendant with such proceedings, and yet if the contractors' board takes that view, that the banks ought to step in more promptly, and if the bank takes the view that there is nothing for them to do so long as the contractor has a license from the State licensing board, we in—

Mr. STEINMEYER. I don't intend by my statement, and you apparently have interpreted it that way, I didn't intend to say that the bank could rely on the license for everything in connection with the dealer, but I do think the bank should be entitled to rely on the contractor's license as evidence of his ability to perform the work for which he is licensed to perform because in order to obtain a license he has to submit his qualifications from an engineering and construction standpoint to the licensing board, and they review his qualifications and approve them. I think that from that standpoint the lending institution is entitled to rely on the license. Otherwise, they would have to go out and conduct an examination to see if the man knows how to lay bricks or flagstone, or whatever it might be.

Senator BENNETT. It seems to me if I interpret this little colloquy correctly, the licensing board becomes an authority, or checks to find out whether the contractor has available the necessary skills of his trade?

Mr. STEINMEYER. I think that is correct.

Senator BENNETT. The bank checks to see whether he has the necessary credit standing. Nobody checks to see whether he has the kind of personal integrity which will protect his customers.

Mr. STEINMEYER. May I answer that?

Senator BENNETT. Yes.

Mr. STEINMEYER. I think the bank does check that as far as it is able to do it but no matter what line of business you are in there are always people who appear to be of integrity, who subsequently turn out to be—to have a lack of integrity.

Senator BENNETT. The thing that interests me in the two days that I have been sitting here—I don't mean to be unfair—is that I think every witness who has appeared before us testifying as to the manner in which he or she was defrauded under this title I program—and they have covered a variety, half a dozen or more dealers who operated this way, the picture has been pretty definitely that all of these dealers could get their financing from the Bank of America.

Now, you testified that when you cut off Superior it was for a banker's reason, which was that the delinquencies had reached the point where it was no longer profitable, and we are concerned with somebody along the line who will pay some attention to this question of responsibility, not to the bank but the responsibility of the contractor to his customer.

Mr. STEINMEYER. Well, I have some figures on that that might—or some information on that that might indicate we have assumed responsibility.

Senator BENNETT. We would like to have them.

Mr. STEINMEYER. In our northern California area, the bank discontinued discounting paper from a total of 190 dealers over a period of about a year and a half, something like that, for various reasons that would indicate that the bank is alert to its responsibilities in that respect.

Mr. SIMON. Would it also possibly indicate they were rather careless in the selection of the dealers that they approved initially?

Mr. STEINMEYER. No, I don't think that is correct.

Mr. SIMON. Doesn't that mean they made 190 mistakes?

Mr. STEINMEYER. Well, out of several thousand dealers that isn't a great percentage, and, furthermore, these terminations were for actions that happened after the bank had started to discount the paper.

Mr. SIMON. Does the bank make that high percentage of mistakes in the paper they take that is not guaranteed by the Federal Government?

Mr. SIMON. Well, I think that overall I don't have any definite figures on it, but I have inquired about it from people in the bank who know, and I think that overall our losses on consumer loans, other than FHA title I, are approximately in the same ratio that they are in FHA title I. In other words, we have automobile loans and freezers and refrigerators, and appliances, and personal loans, and pretty generally in the overall picture our loss average is about the same.

Senator BENNETT. We are getting over into another field. We are assuming, like many people do, that the only measuring stick is the question of losses, or defaults. The whole purpose of this investigation—this investigation was set up because it became evident that there were many people, and there are some of them in this room here, who will never show up as defaults, who, because the bank made it possible for unscrupulous dealers to finance their paper, were victimized by those dealers, and we have been asked in government how these dealers can be discovered and prevented from operating, and we have been forced to answer that under the present law, the responsibility, the opportunity to control that problem, is in the hands of the banks and the banks only. You have said—and I am perfectly willing to accept your statement as important to this investigation—that there were 190 dealers in the northern part of the State whom you cut off, as I assume, for reasons other than pure credit banking reasons; is that correct?

Mr. STEINMEYER. That is correct, after we had started to take their paper and these things developed, and we terminated.

Senator BENNETT. I think the bank is entitled to take their paper, though I hope they would make a careful inspection. We have been down here for 3 days and heard over and over again the names of Superior Construction Co., Enterprise, Cardiff, Atlas, Ross—were any of those terminated by the Bank of America for reasons other than credit reasons?

Mr. STEINMEYER. I can't answer that because I don't have the information.

I would like to make a comment on the statement that you made, Senator, though, if I may, and that is that the banks have made it possible for unscrupulous dealers to engage in these transactions. It sort of carried an implication that the bank made it possible after they knew that the dealers were unscrupulous, and I don't think that is a fair implication. I don't think you intended that, but I would like to have the record clear on it, because I am satisfied that as far as the Bank of America is concerned, and as far as other banks are concerned, that when the bank had ascertained that a dealer is an unscrupulous dealer, that they discontinued doing business with him.

Senator BENNETT. Have you any means of telling us how many complaints, for instance, you have had on Superior Construction Co.?

Mr. STEINMEYER. Well, that could be obtained from our files, but it is not a simple process to do it, and it isn't something that can be done in a short period of time. I am perfectly willing to attempt to get it, but it will take some time, and the reason is that the loans are carried in a loan portfolio, if they are 4 or 5 years old they are in the warehouse.

Senator BENNETT. The thing that worries me is that the mechanics of operating the bank are such that these complaints tend to be treated as an individual problem, and to be lost in the mechanical process of handling them, and never to assume the importance that their multiple pressure should indicate. A complaint comes up like the one that we read you, from Mr. Hillegas' letter, the assistant cashier writes a letter. He goes to the fellow against whom the complaint is entered, and he is given an offhand assurance that something will be done about it, so the letter goes into the file, and I think

it is perfectly fair to say—maybe I am wrong, maybe I am unfair to the Bank of America—but I have the impression that nobody in the management of the Bank of America probably realized the extent and the widespread diffusion of the complaints against an outfit like Superior Construction Co. That is why I say that perhaps for reasons other than reasons of affirmative decision the banks have made it possible for these people to continue long after they should have been chopped off and it was not the banks who chopped them off. It was the California License Board who chopped them off by canceling their license.

Mr. BENTON. Senator, may I interpose that Mr. Hollenbek and his interview with me regarding this matter of Superior stated there were 16 complaints registered against Superior in his files, as against 1,300 loans discounted, and also that Superior was taken out by our bank and discontinued by our bank a full year before the contractors' board took action, and some time, 18 months before the FHA took any action, and that in that interim period, after we cut them off, that the Superior Construction Co. continued to operate, presumably with the full knowledge of the FHA and the contractors' license board.

Mr. SIMON. I don't think you mean to say what the words said—taking action by the State contractors' board that you refer to is their cancellation of the license.

Mr. BENTON. That is right.

Mr. SIMON. The testimony we had yesterday of Mr. Adams was that his biggest complaint was he couldn't cancel a license without going through a long-drawn-out administrative hearing, and before they canceled the license they had a lot of activity by the contractors' board, so I don't think it is fair to say you cut them off a year before the State took any action.

Mr. BENTON. Yes. Our notice of the action by the State contractors' board was in April. Mr. Hollenbek then told me that he was checking 100 percent of the deals and getting an affirmative answer in each case, and by the way those physical spot checks, as they were called, were not conducted by Mr. Hollenbek, but by members of the administrative staff from downtown.

Senator BENNETT. Well, then, you leave us with—I don't know what word I want here—leave us under the necessity of saying that there were only a handful of complaints against Superior, at least so far as you knew it, so the people who have come to us represent, by and large, most of those complaints, and that the other thousands of customers were satisfied, and yet the business methods of Superior were such that we can't believe, can we, Mr. Simon, that they just used those methods on 15 or 16 people?

Mr. SIMON. I can't believe they are true.

Mr. STEINMEYER. Did the Bank of America acquire all that paper?

Mr. SIMON. All we have heard of.

Senator BENNETT. Since yesterday morning since I have been here the name of no other bank has been mentioned in these hearings.

Mr. SIMON. I believe one witness referred to the California Bank, and everybody else had had their paper at the Bank of America.

Senator BENNETT. Or United Credits.

Mr. SIMON. That is right.

Senator BENNETT. That made an impression on me. I hope we are not being unfair to you.

Mr. STEINMEYER. Well, I think I should say this, Senator, that the Bank of America is, even today, the biggest customer of the FHA, and it has been from the inception. The Bank of America sponsored FHA paper and went out to get it, and from the very inception—

Senator BENNETT. As I say, the committee doesn't want to be unfair, and we realize you are the biggest operator. Therefore, you would naturally expect to have the largest number of transactions, but it has been a striking thing to me that I haven't heard a single other bank mentioned. Mr. Simon said somebody mentioned the Bank of California. Now, we are not saying you are responsible for all of this.

I would like to ask you another question: Is there an interchange among the banks handling title I FHA paper with respect to the responsibilities of the dealers on their lists, or do you, as competitors, tend to keep your lists secret or private from your competitors?

Mr. STEINMEYER. You mean between banks?

Senator BENNETT. Yes.

Mr. STEINMEYER. I think generally the clearing house on that is the FHA. Isn't that correct, Mr. Benton?

Mr. BENTON. We have a monthly meeting. It is an informal gathering, much the same as various credit associations have, at which the principal titleholder lenders in the Los Angeles area, a comparable group in San Diego and San Francisco, where the bankers sit down at a lunch once a month and interchange ideas, and also we are very frank in discussing any dealer who might be causing us trouble, and any bank is invited.

Incidentally, there are a number of building and loans who attend our meetings, as well as finance companies, who do this type of financing, and we are very frank and there is no holding back.

Mr. SIMON. One thing that puzzles me is that we had two people from the State contractor's board, Mr. Koontz and Mr. Adams, both of whom said that the title I abuses were widespread, and in tremendous volume. We had the two FHA people, the head man in the San Francisco area and the head man in Los Angeles on title I, Mr. Pendergast and Mr. Thomas, and they both agreed that the title I abuses were widespread and in tremendous volume.

We had the head of the Better Business Bureau in San Francisco, and the head of the Better Business Bureau in Los Angeles, a Miss Tsvetkoff in Frisco and a Mr. Bauer in Los Angeles, and they both said that the abuses were widespread, and many, many thousands.

There is no dispute you have most of the paper. You testified here—

Senator BENNETT. It is the largest quantity.

Mr. SIMON. A million loans, and \$465 million worth of paper in the last 10 years. Yet it seems that nobody told the Bank of America all the things that the FHA people knew, that the Better Business people knew, and that the State contractors' board knew.

Mr. BENTON. Mr. Simon, may I say this, because this is a very personal thing to me. I graduated from high school locally and went to work for the Bank of America a good many years ago, and through the various departments until I took a position with the Treasury Department and the National Banking Department. I had an oppor-

tunity to see the inner workings of all of the major banks in the seven Western States, and a good many of the smaller ones. Since coming back to the bank, and being assigned to this title I thing, I have spent a great deal of time in meditation on this thing, and I know that when people come and sit across the table from you and they have sat across the table from me, and believe me I have to look them in the eye and explain these things to them, and when somebody gets cheated by one of these gyp artists, I feel as badly as if I had lost the money myself, and the Bank of America doesn't win on these things because when we have a customer cheated we have lost a good customer. We are not permitted to make them any further loans. They tell their friends they got cheated. They blame the Bank of America.

I will say this: That of our total loan volume, the FHA loan program amounts to less than 3 percent of our total loan volume, and it is one of our loan programs. The boys in the branches are instructed, and I believe they sincerely do attempt to give the same credit considerations to FHA title I that they give to all other types of loans. Many loans that we have made to people on a shoestring, to get them started in business, and they are now successful—we try to do a loan service. When we started this service in 1934 we thought that is what the Government wanted, to make lots of loans. Now, we find that perhaps we may have been wrong.

Senator BENNETT. When you take these title I home-improvement loans your credit concern has not been with the person who eventually had to pay the bill. If you have had any credit concern it has been with the dealer, and these people—these little people who have been testifying to us these last 2 days, executed their notes in their own homes. They didn't know where the paper was finally going to go, so you had no credit concern with them, and I think the letter to Mrs. Hillegas reaches probably a fair sample of your point of view, and the only way you could have protected those little people was a greater concern about the activities of the promotion programs of the people who created that paper that you bought.

Now, as I understand what Mr. Steinmeyer said, or you did, in the case of Superior Construction, you had recorded 16 complaints out of 1,300 loans. That is approximately $1\frac{1}{4}$ percent, and yet the impression we have here is that—well, I just can't accept the point of view that these people who were taken in by the model-home deal represented only $1\frac{1}{4}$ percent of the loans that were made by Superior, because that apparently was the way they operated over their entire program, so that is the thing that bothers us.

You rest content on a complaint record of $1\frac{1}{4}$ percent, when the evidence here is of a basic program which is unethical, to say the least. It created a lot of paper for you and most of the people who created that paper are going to pay it. Some of them are resisting it, and they are getting the full treatment. You have turned their paper back to FHA and FHA is going to turn it over to the Federal district attorney, and it is going to get collected, but it is this concern for the type of business operation, the manner by which these notes are created that disturbs me, and your feeling of security, because you have only got $1\frac{1}{4}$ percentage registered complaints again disturbs me. I can't believe that that represents a fair sample of the

reaction that the people had to the Superior Construction Co. Can you?

Mr. BENTON. Senator, I certainly have no spirit of complacency, and I am not at all content. If there has been violations, and I am sure there has been violations, my only concern is that they bear their proper relationship to the whole. We have continued to become more and more restrictive with this type of loan to the point of now there may be some bearing on the sensitivity of the economy regarding that type of loan.

Senator BENNETT. As a matter of fact, now, Mr. Benton, under the new law the bank has to take 10 percent of the responsibility on every note, so you will become very much more concerned.

Mr. BENTON. My recommendation to the bank has been that for the last 3 years, that we cancel out completely FHA title I programs, and my suggestion would be to the United States Government that the program be discontinued.

Senator BENNETT. We seriously considered that when we were studying the bill, and that may yet happen, but there was a feeling that we should give it another whirl on a program under which the responsibility of the bank was changed from an amount equal to 10 percent of all the loans that were ever made, to 10 percent on every original loan.

Mr. BENTON. I am sure the bank can do a better job, and I am sure we are anxious and intend to do a better job than we have done in the past. I am sure the Federal Housing Administration could do a better job, and I think that they will attempt to do a better job, but the thing that we can't lose sight of is that the bank and the FHA cannot protect the homeowner. A wise homeowner is not present here today because a wise homeowner asks for three bids. Wise homeowners look in the yellow pages and inquire around and protect themselves. A homeowner is our bulwark of protection. The bank can help, more than we have in the past, and so can the FHA, but the responsibility rests on the home owner.

Mr. SIMON. If a businessman comes to the bank to borrow money to buy investments, or to buy property, is the bank ever concerned with what he is going to buy and what they get as security for his loan?

What I am trying to drive at, if a man came to your bank to borrow \$100,000 to buy a piece of real estate, and your appraiser went out and looked at the real estate and decided it was only worth \$33,000, would you loan him the \$100,000 to buy the real estate?

Mr. BENTON. There we are talking about a commercial enterprise, the three types of credit that we loan on, real estate, commercial and consumer credit, and in the field of consumer credit you have an entirely different situation.

Mr. SIMON. Does it make sense for a banker to loan his customer money to buy something that is only worth a third of what he is going to pay for it?

Mr. BENTON. Economically, no. A man in the consumer credit field, though, some people own a very poor house, and a very fine car. Others own a very poor car and a very fine house. It depends on what people want to buy and if they can afford to pay for it—may I be facetious for just a moment, and say we make loans to people to go on their summer vacations, and we don't guarantee they are going

to have a good time on that vacation, or it is not going to rain, but we do base our loan on whether or not the people can repay the loan, whether we think they can.

Senator BENNETT. But on the title I FHA, you haven't had to take into consideration the question of whether they could repay the loan?

Mr. BENTON. I would certainly welcome the opportunity to conduct it without the benefit of FHA insurance.

Senator BENNETT. You don't have to put any FHA paper under FHA. Isn't that right?

Mr. BENTON. That is right.

Senator BENNETT. You could take the paper from these dealers and never put it under the Housing Act, and nobody would complain about that. Isn't that true?

Mr. BENTON. No. I don't think—no one would complain about it. At least, nobody would blame the Government for it.

Senator BENNETT. If you undertook to take it without the FHA guaranty you would be a lot more concerned about the ability of the individual who signed the note to pay it?

Mr. BENTON. No. I honestly feel that that would not change our credit judgment. That is my personal feeling and you folks here have seen the seamy side of it, the small percentage of those people who have been cheated.

Senator BENNETT. We have had a number of witnesses in the last 2 days who started their testimony by saying "We were in such financial condition that we couldn't possibly buy what was offered to us, but they said to us that it wasn't going to cost us anything; this model home pitch, we could have the patio or have the siding put on our house for nothing and, therefore, even though we couldn't possibly afford to pay it they made it possible for us to get it."

Mr. BENTON. I can only speak as one lending officer, and believe me I speak sincerely when I say that if I had been confronted with such a loan and knowing the people were depending on such proposition, the loan would have been summarily turned down.

Senator BENNETT. I think it would, but under the setup that existed, apparently, let us say, you couldn't somehow, or you didn't find that out, and yet it was going totally around you, sparked by the people whose paper you were buying.

Mr. STEINMEYER. But, Senator, every one of these borrowers is required to sign an application and a form of credit statement, and a statement of the purpose of the loan. Now, we have found a number of instances—and I don't know whether they are cases similar to those which you have had here to testify, but we have found a number of instances where the application for the credit has deliberately concealed, for example, the fact that the borrower was getting a kick-back from the dealer. Now, the bank is at the mercy of the borrower in that situation and the borrower has an ulterior motive in getting that loan, too. In other words, he is going to try to get something from the lending institution.

Senator BENNETT. There has been testimony that the salesmen deliberately put the borrower in a position in which he himself had done something that was improper, so that he could not make a complaint.

Mr. STEINMEYER. I heard the testimony on that \$2,200 loan that Mr. Pendergast talked about, but regardless of other considerations in that particular case the borrower had \$1,000 for his own pocket.

Senator BENNETT. We had other testimony here today in which a person got an \$867 siding job and \$1,000 in cash, and the \$867, in effect, was a bonus they paid to get the \$1,000 in cash because their credit was such that they could not—they had requested credit for \$1,000 to add to their home, and everywhere they went their credit standing was so bad, or their current financial position was so bad that they were refused credit for the \$1,000, but somebody—and I presume it was the Bank of America, took a note for \$1,800 out of which they got their \$1,000 and an \$865 siding job they didn't need.

Mr. STEINMEYER. But they probably signed a written statement which indicated assets, and an income which would justify a payment.

Mr. SIMON. The Senator's point is they were turned down by the banks just plain borrowing \$1,000 without the siding.

Senator BENNETT. There is another thing that maybe you haven't realized out of this experience. These people signed the application at 7 o'clock on Monday night, and by 6 o'clock Tuesday night before the bank ever saw that paper that job was done. The people came on the job the next morning to put the buyer in a position where he had no chance to review what he had done.

Now, the bank had a chance to review the situation, but I am not sure that it would have done them much good because the obligation had already been incurred, and the money already been spent.

One of the neat tricks in this business operated both by Superior and Enterprise was the trick of getting the job done before the customer had a chance to ask for an alternative bid or make any inquiries. Didn't we have one witness who told us that they did attempt the next day to make inquiries about whether the price was a fair price?

Mr. SIMON. That is right.

Senator BENNETT. But they were faced with the fact the job was all finished, and their name was on the bottom of the application.

Was there any credit application involved in these papers?

Mr. SIMON. So far as I know, very few witnesses have talked about credit applications, but that doesn't mean there weren't any because we hadn't asked them.

Mr. STEINMEYER. It is a requirement for an FHA loan. The regulations require it.

Mr. SIMON. I think you will find, Mr. Steinmeyer, that the frequent pattern is when they sign them up they give them a whole bunch of papers.

Mr. STEINMEYER. That has to be filled out, though. That requires information as to employment, salary, and income, and other obligations. It isn't something that the salesman could fill out.

Senator BENNETT. We still have some people here.

Mrs. Hillegas, did you fill out a credit application?

Mrs. HILLEGAS. Yes, sir.

Senator BENNETT. What did you show on it?

Mrs. HILLEGAS. I don't remember at this time, but we were still purchasing a car, I believe; we were still paying on our furniture; we had just purchased this home. We were in terrifically. I believe we had also purchased a water softener at that time.

Senator BENNETT. All on time?

Mrs. HILLEGAS. Yes.

Senator BENNETT. Mrs. Deragarabedian, did you fill out a credit application?

Mrs. DERAGARABEDIAN. I don't remember at the time. Maybe he does.

Senator BENNETT. I will ask your husband.

Mr. Deragarabedian?

Mr. DERAGARABEDIAN. We just signed a blank form.

Senator BENNETT. What was the company with whom you built?

Mr. DERAGARABEDIAN. Cardiff. We just signed blank forms.

Senator BENNETT. And those people filled out the credit?

Mr. DERAGARABEDIAN. Apparently; whether there was a credit application made or not, I don't know, actually.

Senator BENNETT. Who got your account?

Mr. DERAGARABEDIAN. The Bank of America, 25th and Central.

Senator BENNETT. It might be interesting to investigate that particular account, just in retrospect, to see who filled in the credit application form.

These are the types of practices that have disturbed us, and this is the sort of thing that put the unsuspecting property owner on the spot, because to a certain extent he was participating in a process that was improper, to say the least.

Mr. STEINMEYER. I sort of feel, Senator, that where a borrower has participated in a transaction by which he gets the money that he couldn't otherwise get, in addition to the job, that he is really participating in overreaching with the financial institution, whatever it might be.

Senator BENNETT. There is no question about it, and many of these people, I am sure, did it without really realizing what they were doing.

Here is a man who comes along with a new program that works out a problem that they wouldn't work out in the ordinary sense, and he doesn't represent it as an improper program. He represents it as an improvement, a new device by which an old problem can be solved more easily, and a lot of people are eager for that, and, as I said earlier, one of the devices that has been used in this process is to persuade the property owner to do something that was improper so that when he complained he could be threatened with legal action if he carried his through. We had a witness before us before you came this morning who testified of his experience in just such a case, where the dealer went to the buyer and said, "Look, you violated the law, and if you make a complaint the police will be down here and you will be arrested."

Well, people get scared and the process goes through. They pay it out, and that is one of the devices that was part of the scheme. I am not sure whether our testimony indicated that Superior used that device or not. I can't refer specifically, but it was the device in this segment of the building industry.

Mr. SIMON. The case you speak of was Enterprise.

Senator BENNETT. You did a lot of financing for Enterprise. Yet they protected themselves against complaint by putting the borrower in the spot—deliberately putting him in the spot where he could be threatened with legal punishment if he made a complaint.

Mr. STEINMEYER. May I make one more comment, Senator, with respect to this overall picture? The FHA title I program contemplated from its inception that it would have to be on a mass-production basis. In other words, these credits are small. The risk is high, because the credits are substandard, in the first instance. I mean it isn't the same thing as the first one.

Senator BENNETT. The risk is high because the credits of the individual note signers are substandard, but the credit of the United States is the best in the business.

Mr. STEINMEYER. Yes. The FHA program and the insurance was devised for the very purpose of encouraging and requesting lending institutions to make these credits, which would otherwise be considered substandard, and the loss was to be absorbed through the insurance, and that was the purpose of the program.

Now, the FHA made regulations, in the first instance, and they gave regulations applicable to lending institutions, and they specified what should be done. There should be an investigation of the dealer. There should be an investigation of the creditor, but the lending institution is entitled to rely in good faith on documents that are signed by a borrower and submitted to the lending institution.

Senator BENNETT. That is right.

Mr. STEINMEYER. Every one of those forms has in big black letters, in prominent print, a notice that it is of a form, that any falsification of it is a crime. They have warnings on the documents, that "You are responsible for the work of the contractor and you should say if there is anything wrong or not wrong." All of those things considered, it wasn't contemplated—and actually, as a practical matter, a lending institution couldn't handle this type of paper by making an investigation of every case that comes in or appraising the property or appraising the job.

Senator BENNETT. There is no question about that.

Mr. STEINMEYER. It just couldn't be handled. There have been over 1,300,000 people who have borrowed money from the Bank of America alone, on the FHA title I program, and 98 percent of them are satisfied with what they have had, and have paid their bills.

Senator BENNETT. Let us say 98 percent of them have paid their bill.

Mr. STEINMEYER. I think they are satisfied or there would have been more complaints, or there have been.

Mr. SIMON. You haven't sat here for the last 2 or 3 days.

Mr. STEINMEYER. I recognize you have had a lot of complaints. I don't know the number.

Mr. SIMON. Including people calling us at our hotel rooms at 11 and 12 o'clock at night telling us the stories that are of the same tenor.

Senator BENNETT. And while we have been examining these people here, Mr. Kenney has been running out on the side to talk to other people who want to be heard, to whom we have to say "Yours is just another typical story," and there wouldn't be any particular point in adding that testimony to the testimony we already have.

I admit that we do not know exactly how many complaints there are, but I think we are both impressed that it is far more than the 1 or 2 or 3 percent that may be represented statistically by your records.

Mr. STEINMEYER. I heard Mr. Pendergast state yesterday, and as you remarked here, that the complaints were voluminous. I didn't

hear him give any figures. I don't know just how many people have gone into the FHA at San Francisco or here to make complaints.

Mr. KENNEY. May I ask a question or two?

Senator BENNETT. Yes.

Mr. KENNEY. I understand that you state that your complaints would average about 2 percent of the total?

Mr. STEINMEYER. I don't think that I can give you a figure on that. Mr. Benton gave a figure as to one particular dealer over a period of time, because we had information from a witness who we asked about it just this week, but I just can't give you any figure as to the total overall picture.

Senator BENNETT. Mr. Benton's testimony was 18 complaints on 1,600 cases. Am I right?

Mr. BENTON. That is right. And again I am taking my conversation with Mr. Hollenbek, who is familiar with the facts.

Mr. KENNEY. Is it your position that that would be the average number of complaints at any time in your experience, no matter whether now or in the future? You will average out perhaps 1 percent complaints, or maybe one and a half percent? Is that your position?

Mr. STEINMEYER. I don't think it is possible to give a figure on that, and when you talk about a complaint, there are various types. I mean they are service complaints, for example. They didn't clean up when they did the work. They were going to clean off the steps or scrape off the sand, or something of that kind, or maybe more substantial in connection with the job. As to complaints that go to the basis of the transaction, where there is claim of fraudulent representation, I would say they are very much less than 1 percent, because it is not our practice to tolerate that, and when we get that kind of complaint we try to correct it.

Mr. KENNEY. Do you have any different method of handling the FHA loans than the matter of investigation of conventional loans? Do you make a more thorough investigation of your conventional applications than you do an FHA, or are they handled on the same basis?

Mr. STEINMEYER. They are handled on the same basis.

Mr. SIMON. Mr. Steinmeyer, is your title I with or without recourse?

Mr. STEINMEYER. It is without recourse.

Mr. SIMON. Is your other small-loan business with or without recourse?

Mr. STEINMEYER. Well, that depends on the type of paper. We buy wholesale, automobile paper for example, or appliance paper. Some of it is with recourse and some without. A major part of the time, a major part of the business is with recourse for, say 90 days, or something of that kind.

Mr. SIMON. That is one substantial difference, isn't it? The title I paper is all without recourse, and a substantial part of your other small-loan paper is with recourse?

Mr. STEINMEYER. Well, have you any idea as to the percentages? I know that we have various types of financing, but I think that most of it that is taken on a wholesale basis is without recourse, but then, of course, we do a great volume of direct loan business, where the people

come into the bank and want to borrow the money. There, there is no endorsement at all. We lend it direct.

Senator BENNETT. There has been no air of scandal at all about that type of title I paper. Those people knew before they came to the bank what they intended to buy, and they probably had made their contracts, and maybe made their contracts with a contractor whom they knew.

Mr. STEINMEYER. I may say, Senator, we have had even on direct loans complaints as to the workmanship on direct loans, where we have tried to work it out, just as well as on title I.

Mr. KENNEY. Is there any difference in the number of complaints, of FHA as against conventional?

Mr. STEINMEYER. Service complaints?

Mr. KENNEY. Percentage?

Mr. STEINMEYER. I don't think I can answer that. Any answer I would give would just be a guess. I don't really have enough information to base an answer.

Senator BENNETT. We appreciate your patience, and I think we have explored the problem, and we probably have gone around it 2 or 3 times in some cases, so we will not bother you any further.

Mr. Steinmeyer is our last witness, and this will conclude our hearings in California.

The hearing will recess here now and will reopen again in New Orleans next Wednesday morning.

The hearings are in recess.

(Whereupon, at 4:45 p. m., the committee recessed.)

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83D CONGRESS }
2d Session }

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{ REPORT
{ No. —

FHA INVESTIGATION

REPORT

OF THE

SENATE COMMITTEE ON BANKING AND CURRENCY

EIGHTY-THIRD CONGRESS

SECOND SESSION

PURSUANT TO

S. Res. 229



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CONTENTS

	Page
Index of names of individuals and projects.....	131
Part I. Introduction and summary.....	1
Part II. Statute: The National Housing Act.....	8
History of—	
Section 608.....	8
Section 603.....	9
Section 203.....	10
Section 207.....	11
Section 213.....	12
Section 803.....	13
Section 903.....	13
Title I.....	14
Slum clearance.....	15
Part III. Responsibilities under the housing program.....	16
Section A. Congressional responsibility.....	16
Section B. Administrative responsibility of FHA.....	18
Integrity of FHA personnel.....	18
FHA nonfeasance.....	26
FHA deceived Congress.....	29
Section C. Industry responsibility.....	31
Building industry opposes investigation.....	31
Congress was misled by the industry.....	33
Part IV. The frauds and FHA maladministration.....	35
Section A. Applications for FHA commitment.....	35
Section B. Appraisals by FHA.....	38
Section C. FHA sales and promotion.....	39
Section D. Leasehold mortgages.....	40
Section E. Cooperative program.....	41
Section F. The \$5 million ceiling.....	43
Section G. Hotels under section 608.....	44
Section H. Disregard of wage-rate requirements.....	45
Part V. Economic impact on tenants.....	47
Rental increases on windfall projects (public hearings only), table.....	48
Project mortgages with insurance in force under section 608, chart.....	51
Part VI. The home repair improvement program.....	52
Property improvement loans insured under title I, by years 1934–53, chart.....	60
Part VII. General findings from the inquiry.....	61
Section A. Income-tax implications in FHA frauds.....	61
Glen Oaks Village.....	62
William J. and Alfred S. Levitt; Levittown.....	62
Shelby Construction Co. and Warner-Kanter Cos.....	63
Saul Silberman.....	64
Morris Cafritz.....	65
Section B. Distribution by time and area of section 608 mortgages.....	66
Summary of committee's investigation of section 608 projects.....	66
Time distribution of windfalls.....	67
Mortgage defaults.....	68

	Page
Part VII. General findings from the inquiry—Continued	
Section B. Distribution by time and area of section 608 mortgages—Continued	
Project mortgages insured under section 608, by States:	
Percentage distribution based on dwelling units, chart.....	70
Percentage distribution based on amount of mortgage, chart..	71
Number and amount of loans insured, premiums received, and mortgages foreclosed, chart.....	72
Dollar amount of mortgage distributed by years, table.....	73
Summary of section 608 projects investigated on which data were available, table.....	75
Summary of section 608 projects investigated on which total mortgage exceeded total costs, table.....	77
Disposition of section 608 projects in default, table.....	79
Section C. The military housing program.....	81
Section D. Lawyers appearing before the committee.....	81
Section E. The conduct of the inquiry rules of procedure.....	86
Part VIII. Specific cases illustrative of this inquiry.....	88
Section A. Ian Woodner properties.....	88
Section B. Shirley-Duke Apartments.....	91
Section C. Parkchester—Kapelow.....	92
Section D. Farragut Gardens—Kavy-Hirsch.....	93
Section E. Page Manor—Muss, Winston, et al.....	94
Section F. Linwood Park—Sidney Sarner.....	96
Section G. Charles Glueck—Mid-City Investment Co.....	97
Section H. Investors Diversified Services.....	98
Section I. Dr. Daniel Gevinson.....	99
Section J. Stone River Homes—Edward A. Carmack.....	99
Section K. Samuel Rodman.....	100
Section L. Alley Park Homes.....	100
Section M. Lewis Gardens—Franklin Trice.....	100
Section N. Arlington Towers—Walter P. McFarland.....	101
Section O. Manhattantown project—New York.....	101
Summary of money received by interested principals for services rendered to maintain, demolish existing property, and erect Manhattantown, Inc., table.....	104
Part IX. Conclusions and recommendations.....	107
Part X. Tabulations.....	108
Section 608 and 803 projects.....	108
Appendix:	
Overall statistics of FHA housing program, 1934 to June 30, 1954....	127
FBI investigation report on Clyde L. Powell.....	127

REPORT OF FHA INVESTIGATION

-----Ordered to be printed

Mr. CAPEHART, from the Committee on Banking and Currency,
submitted the following

REPORT

PART I. INTRODUCTION AND SUMMARY STATEMENT

To stimulate the national economy, the Congress in 1934 passed the National Housing Act, giving Government financing assistance to residential construction and home repair programs. Subsequently, Congress amended the act to encourage the construction of badly needed rental housing units. But a few greedy, and sometimes dishonest, builders and repairmen and incompetent, lax, and sometimes dishonest FHA officials, used the act as a vehicle to enable a few to reap fortunes at the expense of the American people.

This investigation originated in the action taken by the President of the United States on April 12, 1954, when he directed the Administrator of the Housing and Home Finance Agency to take into custody the records of the Federal Housing Administration. This action by the President resulted from a report by the Commissioner of Internal Revenue, T. Coleman Andrews, showing large windfall profits in 1,149 rental housing projects disclosed by the income-tax returns of the corporations sponsoring those projects and by a report of the Federal Bureau of Investigation which we understand disclosed widespread frauds and irregularities under the title I home repair and improvement program.

There was then pending before this committee the bill which subsequently became the Housing Act of 1954. Preliminary hearings on the charges inherent in the President's announcement were held by this committee April 19-29, 1954, in connection with the pending legislation, as a result of which the committee added safeguards to the law to prevent the then known abuses.

The magnitude of the irregularities involved made necessary a more comprehensive investigation of FHA. This committee unanimously approved, and the Senate unanimously adopted, Senate Resolution 229 providing funds for this committee's investigation of the ad-

ministration of the National Housing Act by the Federal Housing Administration.

Forty-three days of public hearings in this inquiry were held during the period from June 28, 1954, through October 8, 1954, in Washington, New York, Los Angeles, New Orleans, Chicago, Indianapolis, and Detroit. The committee heard 372 witnesses in public hearings and recorded 7,754 pages of testimony. All witnesses appearing before the committee at public hearings other than public witnesses had previously testified in executive session. The testimony of the 671 witnesses who appeared in executive session ran to 18,044 typewritten pages. From these executive hearings a determination was made of the witnesses to be heard in public.

The committee heard public testimony with respect to 543 (7.7 percent) of the 7,045 projects insured under section 608 of the National Housing Act. The total FHA insured mortgages on these 543 projects were \$738.5 million. The statute provided for FHA insured mortgages not in excess of 90 percent of the estimated cost of the project. Presumably, therefore, the sponsors of those projects should have had in excess of \$73 million of their own capital invested in those projects. However, the testimony showed that in 437 of those projects involving mortgages totaling \$590.1 million, the mortgage proceeds exceeded all costs of every kind or description. In those cases the mortgage proceeds exceeded 100 percent of the costs, according to the builders' own computation of their costs, by \$75.8 million. In the remaining 106 cases, involving mortgages of \$148.4 million, the mortgage proceeds fell short of meeting all costs by \$6.8 million, but even this investment was far less than the 10 percent contemplated by the statute.

While the builders' own computation of the excess of mortgage proceeds over cost was used in those cases, our inquiry indicates that these costs, in at least some cases, and we do not know how many cases, included improper charges. An audit of the actual cost in each case would undoubtedly result in excess mortgage proceeds over actual costs in a greater sum.

In these projects, upon completion, the sponsors were the owners of the buildings and had in their pockets excess mortgage proceeds in cash amounting to millions of dollars (after paying, or reimbursing themselves for the payment, of every cost in connection with the project from land acquisition to lawyers' fees). There is no personal responsibility or liability upon the builder or sponsor to repay the borrowed mortgage money. Only the property is liable for the repayment of the debt, over a period of 30 or more years, from the rental income to be paid by the tenants.

In a great many cases sponsors filed consolidated tax returns to avoid the payment of any Federal income taxes on these funds—money they received which they are never required to repay. In most other cases of windfall profits the device of obtaining an increased appraisal of the property and of writing up its value was used to disburse these funds as a distribution of "surplus" which was claimed to be taxable only at 25 percent as a long-term capital gain. In but few cases were normal income taxes paid on these funds.

The FHA program involved over \$34 billion of Government-insured financing. The largest portion, \$17.5 billion, financed the construction of 2.9 million single-family homes under section 203 of the act.

The home repair and improvement program, under title I of the act, accounted for \$8 billion of Government commitments. The 2 major programs under title VI accounted for \$7 billion of Government-guaranteed commitments, divided about equally between the 1- to 4-family dwellings under section 603 of the act and the multifamily rental apartments under section 608 of the act. The military and defense housing programs under sections 803 and 903 of the act utilized \$1 billion of Government-guaranteed commitments. A summary of the number of loans, the number of units, and the original amount of Government commitments issued to June 30, 1954, is included in the appendix (p. 127).

The FHA rental housing program made a very substantial contribution toward providing badly needed rental housing in the period during and after World War II. A total of 465,683 rental units were built in 7,045 projects under section 608. This was a considerable accomplishment achieved under the National Housing Act. But we are not prepared to accept the premise that adequate rental housing cannot be made available to the American people except when unconscionable profits are realized through abuses and irregularities in the program. We recognize the accomplishments of FHA's rental housing program and the integrity of most FHA employees and builders. We are critical only of the unlawful and improper practices which accompanied the program; and we do not admit that such a program cannot be honestly and properly successful.

We have frequently been told that the building industry will not build multifamily rental housing unless the builder can make a fair profit out of the Government-financed mortgage funds and also continue to own the property without any substantial investment. If that is the only alternative it is better that the Government build such projects itself.

The basic vehicles through which these irregularities were achieved by some builders were the filing of false applications by builders and the making of unrealistic appraisals and estimates by FHA. There is almost no case in which a builder achieved a substantial windfall in which his application for an FHA mortgage commitment did not contain false statements. Some builders have valued land at 3, 4, and 5 times its cost, frequently within a matter of days after they had purchased the land. The committee found projects where the estimated architect's fees were 5 or 10 times the amount provided for in written contracts for those services. They have included land as an equity investment in the project when in fact their prearranged agreements provided for payment for the land out of the mortgage proceeds. They have even estimated construction costs substantially higher than the costs called for in written contracts with the building contractor.

This was accompanied by corruption in some cases. In a great number of cases the substantial entertaining and wining and dining of FHA people by builders appears to have been to the disadvantage of the public. In other cases FHA employees were working for and being paid by the very builders whose applications they were processing. In still other cases FHA employees seem to have been incompetent to administer the program in their charge.

The Congress sought to prevent frauds by making it a crime, punishable by a \$5,000 fine and imprisonment for 2 years, to make any false statement or to willfully overvalue any asset in an FHA applica-

tion. FHA, on the other hand, apparently considered itself obligated to obtain rental housing at any cost, and thereby accepted the many demands and devices of builders. FHA not only ignored that criminal provision of the act, but it virtually invited builders to make false statements in their applications by publicly stating that it would not consider incorrect statements in applications as having any materiality. Most of these frauds could not have occurred if the builders had been required to file truthful applications.

The statute of limitations on the crime of filing a false application under the National Housing Act is 3 years. Since no applications could have been filed after the expiration of the act on March 1, 1950 (except for amendments to then existing applications) it appears that the statute of limitations is a bar to present criminal prosecution of these offenses. In 1951, and again in 1953, the Attorney General sought to prosecute builders for making false or incomplete disclosures. In each case the General Counsel of FHA advised that FHA was not deceived because it did not rely on the statements of the builders. We concur in the views apparently expressed by two Attorneys General that the offense of making false statements in FHA applications should be subject to criminal prosecution and we cannot condone the action of FHA in preventing this action. Nor can we approve the position of FHA in allegedly paying no attention to the statements in the builders' applications.

We have heard that many of its loose practices were the result of a vigorous effort by FHA to induce builders to construct more rental housing projects. It is for the Congress, however, to determine the extent to which the Federal Government will go in subsidizing and stimulating rental housing. FHA had authority to encourage the construction of housing only within the limitations, incentives, and permissive conduct provided for by the acts of Congress.

The unconscionable windfall profits have not infrequently been linked by builders with the crying demand for rental housing in the postwar era. The Congress, with the concurrence of FHA, felt this pent-up demand had been substantially met by the end of 1949 for it permitted section 608 of the act to expire on March 1, 1950. Significantly we find almost no windfalls in the years 1946-48 when the housing shortage was greatest. There were a few windfalls in 1949. But the greatest number of the largest and most unreasonable windfalls occurred in 1950-51. Most of those projects were not completed until after the expiration of this section of the act.

In 1947 the Congress sought to preclude excessive valuation of these projects by amending the act to provide that "the Federal Housing Commissioner shall therefore use every feasible means to assure that such estimates will approximate as closely as possible the *actual costs of efficient building operations.*" The record discloses that FHA wholly ignored this act of Congress.

In compliance with the statute FHA's mortgage commitment could not exceed 90 percent of its estimated cost of construction. Therefore, wherever the actual cost of a project was 15 percent below the amount of the FHA insured mortgage it was 25 percent below the FHA estimate of costs. In some projects this variance was as much as 30 and 40 percent. Rentals that owners of FHA insured projects were permitted to charge were based, not on the actual costs, and not on the amount of the mortgage, but on the original FHA estimate of

costs. Permissive rents included a 6½ percent return on this FHA estimate of costs or on comparable rentals of similar accommodations, whichever was the lower.

Excessive mortgages require higher rental income to meet the additional interest and amortization charges required by the increased amount of the mortgage. In the present rental market, which continues to be tight in some areas of the country, some tenants are paying excessive rent to carry these inflated mortgages. They will continue to be required to do so unless other rental facilities become available to them. If and when the time comes that tenants have the opportunity to move to rental projects not requiring these inflated carrying charges, it is not unlikely the owners of such projects will be unable to obtain the rents necessary to carry their projects. We may then expect a substantial number of these properties to be returned to the FHA under its guaranty of the mortgage, as the inadequate income precipitates mortgage defaults.

Either the tenants or the FHA must pay the costs of those excessive mortgages. To date most of that cost has been visited upon helpless tenants.

We are not unmindful of the responsibility of the Congress, which enacted the National Housing Act. The record, however, leads to the inescapable conclusion that these frauds could not have occurred had the criminal penalties against false applications been enforced, and had FHA complied with the 1947 amendment to the act in making its estimates "as close as possible to the actual costs of efficient building operations." It was not defects in the statute, but its maladministration by FHA, which was responsible for these frauds. The Congress can be criticized only for having waited so long to investigate this program.

The home-repair and improvement program, under title I of the Housing Act, was adopted in 1934 to stimulate business and encourage needed home repairs. The act permits a homeowner to make repairs without making any downpayment to the contractor and permits the contractor to discount the homeowner's note at a bank with an FHA guaranty. Over the years "suede-shoe salesmen" and "dynamiters," whose ranks have included racketeers and gangsters, have infiltrated this business. They have used fraudulent and deceptive sales practices on thousands of homeowners.

In the belief that home repairs of substantial value would cost them little or nothing many homeowners have signed contracts which they did not read or understand. After obtaining work which was either unsatisfactory or worthless, these homeowners found that a bank held their note for a substantial sum of money and that under the law they had no defense to the payment of the note, in spite of the frauds practiced upon them. The testimony shows that many lending institutions were, at a minimum, careless in accepting notes from questionable dealers and thereby encouraged these fraudulent practices.

Most home-repair contractors are both honest and reliable. But laxity in the administration of the title I program enabled dishonest people to make large sums in illicit profits from owners of small homes who perhaps could least afford the losses.

The Commissioner of Internal Revenue has indicated an intention to vigorously prosecute the tax laws to recover for the Government such sums as are due to it from these recipients of ill-gotten gains. We urge

the Commissioner to continue, and if possible to increase, the vigor of this program. The Department of Justice has during the course of this investigation convicted 60 persons and obtained 78 indictments against 126 persons for offenses connected with the National Housing Act, largely under the title I home improvement program. Up to the present time, there have been very few convictions under section 608. The Department of Justice and the United States district attorneys are urged to continue, and if possible to increase, the vigor of their prosecutions of all who have committed criminal offenses under the National Housing Act where the statute of limitations has not expired.

This committee has turned over to the Attorney General and to the Commissioner of Internal Revenue data and information obtained during our investigation. The committee wishes to express its appreciation to the General Accounting Office, the Bureau of Internal Revenue, the Department of Justice, and the Federal Trade Commission for the complete and most helpful cooperation each of them extended during this investigation.

It is not possible to state the total cost of the section 608 program to FHA to this date. As of May 31, 1954, the FHA had become the owner of either the properties or the mortgage notes of 291 section 608 projects containing 18,850 units and representing an investment of \$128.7 million. Forty-one of these properties, in which FHA had an investment of \$13.9 million, have been sold for a net loss of \$952,880. Until the FHA is able to sell the remaining 250 properties in default, it is not possible to estimate what, if any, will be its loss on this \$114.8 million investment. There is available for section 608 losses a reserve fund of \$105.2 million. Inflation during the last 5 years has minimized the FHA's present loss and has perhaps prevented other defaults. The FHA and the Federal Government continue to be liable for the over \$3 billion of mortgage commitments which remain outstanding under the section 608 program. (For summary of the section 608 program, see chart on p. 72.)

It is difficult, if not impossible, to estimate the total amount by which the American people were defrauded in the FHA program. We have inquired into only 543 of the 7,045 projects constructed under section 608 of the act in which the Government's commitments totaled \$3.4 billion. In projects that we have examined the total costs were more than \$75 million less than the mortgage proceeds, although the statute contemplated that in projects of that dollar volume the costs would have been \$73 million in excess of the amount of the mortgage. And that total represents the builders' own computation of costs shown in at least some cases to be excessive. Rents in FHA insured projects are based upon the FHA estimate of the cost to construct the project. For every \$1 million of excessive estimate, the tenants may pay as much as \$65,000 a year excessive rent—for the 30-year life of the mortgage.

We did not have the opportunity to examine many of the 1- to 4-family rental projects in the \$3.6 billion program under section 603 of the act. In one case, however, we found a \$29 million mortgage to be more than \$5 million in excess of the actual costs of the project.

In the \$8 billion home repair and improvement program there are many cases in which homeowners were charged 2, 3, and 4 times the value of the work done; and in some cases the work was actually

worthless. In many cases the commissions of the so-called salesmen, called "dynamiters" in the trade, ran to 50 percent of the charge made to the homeowner for the work.

COMMENT BY SENATORS FULBRIGHT, ROBERTSON, SPARKMAN, FREAR,
DOUGLAS, AND LEHMAN

We appreciate the fact that the committee has adopted many of the suggestions we have made for changes in this and other sections of the report. For this reason, and because we believe there is much in it to be commended, we have not objected to the issuance of the report, although we have reservations with respect to portions of it. We shall note some of our reservations at points in the text of the report. (See also pages 34, 50, and 106.)

As to this section, we feel the report goes too far toward giving the impression that virtually all cases involving an excess of mortgage amount over actual costs involved fraud—especially if fraud is given the meaning which it has in criminal proceedings.

The report correctly points out that unrealistic appraisals and estimates in builders applications were encouraged by the fact that FHA did not consider these practices to be fraudulent and did not rely on them in making its own evaluation.

In passing judgment on these facts, however, the committee should take into consideration that under the law at that time, or even now, FHA's determination of the mortgage amount was not to be based upon the actual costs of a completed individual project, nor upon the estimates of costs, or contract costs, in the application, but upon FHA's own estimates.

Congress permitted FHA to make its determination of mortgage amounts on the basis of the estimated replacement costs of the project. This determination had to be made in advance of construction, upon the basis of FHA's own estimates, not those of the builder, nor the actual cost of the completed project.

The standard practice of evaluating land, therefore, was not what it may have cost the owner but its estimated value. As to architects' fees and builders' profits, the practice was not what actually was paid, but what normally would be paid, if the construction were to be duplicated.

That these estimates by the FHA were faulty in many cases is apparent. That certain FHA officials were lax in their exercise of authority to prevent excessive profits is also apparent. That some builders wrung excessive profits out of a war-created housing emergency is less than admirable.

Undoubtedly there were cases of fraud. It is going too far, however, to imply, as we believe the report does, that all who overestimated costs and received excessive mortgage money were guilty of legal "fraud," and have escaped prosecution only because the statute of limitations has expired.

PART II. STATUTE: THE NATIONAL HOUSING ACT

The point of beginning in any inquiry of the Federal Housing Administration is the National Housing Act adopted by the Congress in 1934 by which the Federal Housing Administration was created and under which its duties were set forth. Under our constitutional form of government, it is the function of Congress to enact workable legislation. The executive branch must intelligently and properly administer that legislation as passed by the Congress. Arguments have been made as to the economic soundness of the National Housing Act, particularly of section 608. We have not attempted, however, to reappraise the economic issues before the Congress in passing the National Housing Act. Our inquiry has been directed toward how the law worked out, and whether its deficiencies resulted from poor legislative drafting of the law or from poor administration. The Congress should be held responsible for abuses only if it failed to permit and provide for proper administration of the program.

The specific provisions of the statute throw great light on the extent to which FHA intelligently and honestly administered the housing program as well as the extent to which the Congress exercised its legislative responsibility. Nine sections of this act have been reviewed, to a lesser or greater extent, in this investigation. The committee's principal inquiry has been of the administration of the home-repair and improvement program provided for in section 2 under title I of the act, and the multifamily rental projects administered under title VI, section 608, of the act. Attention has been directed particularly to these programs because the greatest abuses were concentrated there.

Other programs inquired into more briefly by the committee are: Guaranties of mortgages of 1- to 4-family sale houses under section 203 of the act; guaranties of mortgages for multifamily rental projects under section 207 (at 80 percent of economic value, as distinguished from 90 percent of estimated costs under sec. 608); guaranties of mortgages for supposedly nonprofit cooperative ventures at 95 percent of estimated costs under section 213; guaranties of mortgages for 1- to 4-family houses under section 603; guaranties of mortgages of multifamily residential projects at military bases under section 803; guaranties of single- and 2-family residential houses in defense areas under section 903; and Federal subsidies for slum-clearance projects under title I of the Housing Act of 1949.

History of section 608

Section 608, about which there has been a great deal of controversy, was added to the National Housing Act on May 26, 1942 (Public Law 559, 77th Cong.). It authorized the FHA Administrator to insure mortgages on property "designed for rent, for residential use by war workers". The principal amount of any such mortgage was limited to \$5 million; there was a further limitation of \$1,350 per room. The act also provided that mortgages could not exceed 90

percent of the Administrator's estimate of the "reasonable replacement cost" of the completed project "including the land; the proposed physical improvements; utilities within the boundaries of the property or project; architects' fees; taxes and interest accruing during construction; and other miscellaneous charges incidental to construction and approved by the Administrator." A further limitation was that the mortgage could not exceed the "amount which the Administrator estimates will be the cost of the completed physical improvements on the property or project, exclusive of off-site public utilities and streets, and organization and legal expenses."

The Administrator was authorized to require the mortgagor to be regulated or restricted as to "rents, or sales, charges, capital structure, rate of return, and method of operation." In order to enforce these restrictions effectively, the Administrator was authorized to acquire \$100 of stock in any such mortgagor.

Many changes were made in the act in 1946 (Public Law 388, 79th Cong.). Priority in occupancy of the FHA insured properties was given to veterans of World War II and their immediate families. The maximum mortgage per room was increased to \$1,500 and the Administrator was given discretion to increase this amount to \$1,800 per room if cost levels so required. The basis for the Administrator's estimate of cost was changed from "reasonable current cost" to "necessary current cost"

A major amendment to the section was made December 31, 1947, when Congress imposed the restriction that:

In estimating necessary current cost for the purposes of said title, the Federal Housing Commissioner shall therefor use every feasible means to assure that such estimates will approximate as closely as possible the actual costs of efficient building operations. (Public Law 394, 80th Cong.).

In 1948 a maximum limitation of \$8,100 per family unit was substituted for the previous maximum limitation of \$1,800 per room (Public Law 901, 80th Cong.). This turned out to be a very significant change for thereafter many projects were authorized in which 70 to 90 percent of the apartments were 1-room efficiencies. That amendment also added a provision requiring—

That the principal obligation of the mortgage shall not, in any event, exceed 90 percent of the Administrator's estimate of the replacement cost of the property or project on the basis of the costs prevailing on December 31, 1947, for properties or projects of comparable quality in the locality where such property or project is to be located.

A new requirement was added that the mortgagor must certify that in selecting tenants for the property covered by the mortgage, he would not discriminate against any family by reason of the fact that there were children in the family.

The final extension of the program came in 1949 when March 1, 1950, was established as the terminal date (Public Law 387, 81st Cong.). The program was permitted to expire on that date.

History of section 603

Section 603 was added to the National Housing Act in 1941 to provide 1- to 4-family sale and rental housing to meet the acute shortage caused by the national-defense activities (Public Law 24, 77th Cong.). The original requirements for insurance eligibility were that (1) the mortgage could not exceed 90 percent of appraised value and \$4,000 for a 1-family dwelling, \$6,000 for a 2-family residence, \$8,000 for a

3-family residence, and \$10,500 for a 4-family residence and (2) the mortgage could not have a maturity in excess of 20 years.

In 1946, priority under this section was given to veterans and their families and two major changes were made. The first change substituted necessary current cost for appraised value in determining the maximum amount of the mortgage under the 90-percent mortgage formula. The second authorized the Commissioner to prescribe higher maximum insurable mortgage amounts for these one to four family-size dwellings if he found that at any time or in any particular geographic area it was not feasible within the mortgage limitations to construct such dwellings without sacrifice of sound standards of construction, design, or livability. The higher maximum insurable amounts were \$8,100, \$12,500, \$15,750, and \$18,000 for 1-, 2-, 3-, and 4-family dwellings respectively (Public Law 388, 79th Cong.).

Authority to insure mortgages under this section was terminated on April 30, 1948 (Public Law 901, 80th Cong.).

History of section 203

Section 203 has been a part of the National Housing Act since 1934 (Public Law 479, 73d Cong.). This program provided for FHA mortgage insurance on 1- to 4-family sales houses. This committee did not inquire into that program as a part of this investigation. The principal amount of a mortgage under this section could not exceed \$16,000 or 80 percent of the appraised value of the property, and the term of the mortgage could not exceed 20 years.

In 1938, section 203 was amended to provide 2 additional plans of mortgage insurance for single-family owner-occupant dwellings (Public Law 424, 75th Cong.).

Under one plan, the mortgage could not exceed \$5,400 or 90 percent of the appraised value and the term of the mortgage could not exceed 25 years.

The other new plan provided that the mortgage could not exceed \$8,600 and could not exceed the sum of 90 percent of \$6,000 of the appraised value plus 80 percent of such value in excess of \$6,000 up to \$10,000. The term of the mortgage was limited to a maximum of 20 years.

The Housing Act of 1954 repealed many overlapping and complex provisions of section 203 and established a simpler and more liberal formula for determining maximum mortgage limitations (Public Law 560, 83d Cong.). The section now provides that the maximum amounts of mortgages which can be insured by FHA are \$20,000 for a 1- or 2-family residence; \$27,500 for a 3-family residence; and \$35,000 for a 4-family residence. The mortgage cannot exceed the sum of 95 percent of \$9,000 of appraised value and 75 percent of the appraised value in excess of \$9,000, with authority for the President to increase the \$9,000 limitation to \$10,000 if he determines such action to be in the public interest.

If the mortgagor is not the occupant of the property, the maximum loan to value ratio cannot exceed 85 percent of the mortgage loan which an owner-occupant can obtain. The maximum maturity of mortgages insured under section 203 cannot exceed 30 years or three-quarters of the Commissioner's estimate of the remaining economic life of the building improvements, whichever is lesser.

History of section 207

Section 207 was another one of the original programs of the National Housing Act of 1934 and provided mortgage insurance for rental housing (Public Law 479, 73d Cong.). Title to the property had to be held by Federal or State instrumentalities, private limited dividend corporation, or municipal corporate instrumentalities, formed for the purpose of providing housing for persons of low income. These instrumentalities and corporations were required to be regulated by law or by the FHA Administrator as to rents, charges, capital structure, rate of return, or methods of operation. The maximum mortgage insurance could not exceed \$10 million for one project.

In 1938, section 207 was amended to provide that certain regulated private corporations could qualify as mortgagors (Public Law 424, 75th Cong.). The amount of the mortgage could not exceed \$5 million, nor exceed 80 percent of the Administrator's estimate of the value of the project when the proposed improvements were completed, and could not exceed \$1,350 per room.

In 1939, section 207 was amended to provide that the amount of the insured mortgage could not exceed the Administrator's estimate of the cost of the completed physical improvements on the property, exclusive of the following: Public utilities and streets, taxes, interest and insurance during construction; organization and legal expenses; and miscellaneous charges during or incidental to construction (Public Law 111, 76th Cong).

The Housing Act of 1948 (Public Law 901, 80th Cong.) made further major changes in this section. Redevelopment and housing corporations were added to the list of public corporate bodies which could be permissible mortgagors and an exception to the \$5 million mortgage limitation was made for public corporate mortgagors setting their mortgage ceiling at \$50 million.

The amount of the insured mortgage could not exceed 80 percent of the amount which the Administrator estimated would be the value of the property or project when the proposed improvements were completed, including the land; the proposed physical improvements, utilities within the boundaries of the property or project, architects' fees, taxes, and interest accruing during construction, and other miscellaneous charges incident to construction and approved by the Administrator.

Moreover, for the private corporate mortgagor the mortgage could not exceed the Administrator's estimate of the cost of the completed improvements exclusive of public utilities and streets and organization and legal expenses. The amount of the mortgage could not exceed \$8,100 per family unit in any case.

Major changes were made in the provisions of section 207 by the enactment of the Housing Act of 1950 (Public Law 475, 81st Cong.). The section 207 mortgagor was required to certify that he would not discriminate against children in selecting tenants for the projects. The amount of the mortgage could not exceed 90 percent of the first \$7,000 of estimated value per family unit plus 60 percent of such estimated value in excess of \$7,000 up to \$10,000 per family unit. A further modification stated that the mortgage could not exceed \$8,100 per family unit or \$7,200 per family unit if there were less than 4½ rooms in the family unit.

A further major change in the loan to value ratio came in 1953 (Public Law 94, 83d Cong.). The language was reinstated that the mortgage amount could not exceed 80 percent of the estimated value of the completed project and the more complex formula was discarded. The maximum mortgage limits were set at \$2,000 per room, \$7,200 per family unit of less than 4½ rooms and a maximum of \$10,000 per family unit.

The Housing Act of 1954 provided for maximum mortgages of \$2,000 per room and \$7,200 per family unit of less than 4 rooms (Public Law 560, 83d Cong.). The \$10,000 per family unit limitation was repealed. However, the Commissioner was given the discretion to increase the per room limitation to \$2,400 and the family unit limitation to \$7,500 in elevator-type structures to compensate for the higher costs of construction for such structures. No change was made in the loan to value ratio.

A new provision was added to prevent "windfall profits," by requiring the builder to certify the amount of his actual costs. If the proceeds of the mortgage exceed the approved percentage of actual costs, the excess must be paid to the mortgagee for the reduction of the mortgage principal.

History of section 213

The section 213 cooperative housing insurance program was enacted in April 1950 (Public Law 475, 81st Cong.). The law provided for two types of nonprofit cooperative projects: management and sales type dwellings. The principal amount of the mortgage for the management type projects could not exceed \$5 million per project; \$8,100 per family unit or \$1,800 per room; and 90 percent of the estimated replacement cost.

Two exceptions to these maximum limitations for World War II veterans provided increased allowances for each 1-percent increase in veteran's membership in the cooperative and, if at least 65 percent of the membership of the cooperative were veterans, the maximum mortgage limitation was \$8,550 per family unit or \$1,900 per room with a 95 percent maximum ratio of loan to value.

The maximum mortgage limitation of \$5 million per project applied also to the cooperative sales type dwellings. In addition, the principal amount of the mortgage could not exceed the greater of either the limitations described above for cooperative management type projects or the limitations required by section 203 of the National Housing Act.

In October 1951, section 213 was amended to include veterans of the Korean war within its benefits (Public Law 214, 82d Cong.).

The Housing Act of 1954, adopted on August 2, 1954, has further amended section 213 (Public Law 560, 83d Cong.). A provision was added to permit FHA-insured cooperative housing mortgages to be as high as \$25 million in amount if the mortgagor cooperative is regulated by Federal or State law as to rents, charges, and methods of operation.

This section also changed, with respect to nonveteran projects, the former limitation on mortgage amounts of \$1,800 per room or \$8,100 per family unit to \$2,250 per room and the family unit limitation is applicable only if the number of rooms is less than four. Also, there is a change from a cost basis to a valuation basis. In addition, the basis for allowing increases in mortgage limitations for veteran mem-

bership was changed so that such increases can be made only if 65 percent of the members of the cooperative are veterans.

The Commissioner was authorized in his discretion to increase the dollar amount limitations for elevator-type structures in both veteran and nonveteran projects. The maximum increases permitted are \$2,250 per room to \$2,700; \$2,375 per room to \$2,850; \$8,100 per family unit to \$8,400; and \$8,550 per family unit to \$8,900.

History of section 803

Title VIII was added to the National Housing Act on August 8, 1949 (Public Law 211, 81st Cong.). Section 803 stated that the purpose of this program was to provide rental housing accommodations for civilian and military personnel of the Armed Forces at or in the area of military installations where there was an acute shortage of housing. The Secretary of Defense was required to certify that the housing was necessary and the installation concerned was a permanent part of the military establishment and there was no present intention to substantially curtail activities there.

The principal amount of the mortgage on such a project cannot exceed \$5 million, cannot exceed 90 percent of the amount which the Commissioner estimates will be the replacement cost of the property or project when the proposed improvements are completed, and cannot be more than \$8,100 per family unit, except in an exceptional case in which the Secretary of Defense certifies that the need would be better served by single-family detached dwellings, the mortgage limitation is \$9,000 per family unit.

By amendment in 1951, personnel of the Atomic Energy Commission employed at AEC installations were included within the benefits of this law. In addition, the Commissioner was authorized to increase the limitation from \$8,100 per family unit up to \$9,000 where cost levels so required (Public Law 139, 82d Cong.).

In 1953 an "antiwindfall profits" provision was added which required the builder, upon completion of the project, to certify his actual costs and to pay the mortgagee, for reduction of the mortgage, the amount by which the mortgage proceeds exceeded the actual costs (Public Law 94, 83d Cong.).

The Housing Act of 1954 extended to June 30, 1955, the program under section 803 (Public Law 560, 83d Cong.).

History of section 903

Section 903 was added to the National Housing Act in 1951 to provide adequate housing in areas which the President determines to be critical defense areas (Public Law 139, 82d Cong.). The requirements for insurance under this section provide that the mortgage must cover property designed for residential use of not more than 2 families and cannot exceed 90 percent of the appraised value. The mortgage cannot exceed \$8,100 for a single-family dwelling and \$15,000 for a two-family dwelling except that the Commissioner may increase these amounts to \$9,000 and \$16,000, respectively, if he finds the cost levels so require. These dollar amount limitations may be further increased up to \$1,080 for each additional bedroom in excess of 2 per family unit if such units meet sound standards of livability as 3- and 4-bedroom units. The maximum maturity for mortgages insured under this section was limited to 30 years.

The Housing Act of 1954 (Public Law 560, 83d Cong.) requires that each dwelling covered by a mortgage insured under this section after the effective date of the act be held for rental for a period of not less than 3 years after the dwelling is made available for initial occupancy. This act also requires the mortgagor to certify that the approved percentage of actual cost equaled or exceeded the proceeds of the mortgage loan or the amount by which the proceeds exceeded such approved percentage and to apply the amount of such excess to the reduction of the mortgage.

History of title I

Title I was enacted in 1934 as a part of the original National Housing Act (Public Law 479, 79th Cong.). This was a depression measure aimed at helping solve the widespread unemployment in the construction industry. Section 2 provided for insurance of lending institutions against losses up to 20 percent of the aggregate amount of advances made for the purpose of financing alterations, improvements, and repairs upon real property. The individual loans could not exceed \$2,000.

In 1936 section 2 was amended to provide that the amount of insurance to be granted to a financial institution was reduced from 20 percent of the total amount of loans to 10 percent thereof (Public Law 486, 74th Cong.).

The National Housing Act Amendments of 1938 (Public Law 424, 75th Cong.) provided for the expansion of title I, section 2. The maximum amount of individual loans for financing repairs, alterations, and improvements on existing structures was increased to \$10,000. In addition, provision was made for loans up to \$2,500 for financing the building of new structures.

In 1939 catastrophe loans were included as 1 of 3 classes of loans insurable under section 2 (Public Law 111, 76th Cong.). The other two classes were loans for alterations or repairs and loans for building new structures. The amount of each individual loan in any of the 3 classes could not exceed \$2,500 or have a maturity in excess of 3 years and 32 days.

One new feature of the law was the fixing of a premium charge of not to exceed three-fourths of 1 percent per annum of the original amount of the loan payable by the financial institution for insurance under this title.

Numerous minor changes were made in the program during the war years, but the next major amendments came in 1948. The National Housing Act of 1948 (Public Law 901, 80th Cong.) increased the maximum limit on loans for new construction from \$3,000 to \$4,500. A new program for loans for the alteration, repair, improvement, or conversion of an existing structure to be used as an apartment or a dwelling for two or more families was included. These loans could not exceed \$10,000 and had a maturity of not more than 7 years and 32 days.

The Housing Act of 1950 (Public Law 475, 81st Cong.) reduced the maximum loans for new construction from \$4,500 to \$3,000 and loans for new residential construction were limited to a maturity of 3 years and 32 days.

The revelation of abuses in the operations of the home repair and improvement program led to the enactment of safeguarding provisions

in the Housing Act of 1954 (Public Law 560, 83d Cong.). These amendments were:

1. A lender covered by title I insurance was placed in the position of a coinsurer by limiting his reimbursement to 90 percent of the loss on any individual loan. Since the lender must absorb 10 percent of the loss on each loan, it will be in the lender's interest to conduct more careful lending operations and thus help prevent abuses in the home repair and improvement program.

2. In order to be eligible as a lender under title I, the lending institution must either (a) be subject to inspection and supervision of a governmental agency and found by the FHA Commissioner to be qualified by experience or facilities to take part in the title I program; or (b) be approved by the Commissioner on the basis of the institution's credit and experience or facilities to make and service such loans.

3. Only home improvements which substantially protect or improve the basic livability or utility of properties are eligible for insurance. The FHA Commissioner is directed to declare ineligible from time to time items which do not meet this standard or are especially subject to selling abuses.

4. The use of title I loans on new houses is prohibited until after they have been occupied for at least 6 months. The purpose of this provision is to prevent the proceeds of a title I loan from being used as part of the downpayment for the purchase of a new house.

5. Multiple loans granted under title I on the same structure are prohibited from exceeding in the aggregate the dollar limit set forth by statute for that particular type of loan.

History of slum clearance

Title I of the Housing Act of 1949 (Public Law 171, 81st Cong., approved July 15, 1949) authorized the Administrator of the Housing and Home Finance Agency to provide assistance, in the form of capital grants and loans, to localities for slum clearance and urban redevelopment. The capital-grant contracts authorized in title I, aggregating \$500 million, were for the purpose of defraying up to two-thirds of the net cost to localities of making project land available at fair value for approved new uses.

The law authorized borrowings by the Administrator from the Treasury, aggregating \$1 billion, which can be used for short-term advances to finance the selection of project sites and the preparation of plans for specific project development operations; temporary loans for the acquisition, clearance, and preparation of land for reuse; special loans to finance construction of public buildings and facilities; and long-term loans to refinance the local investment in project land which is leased rather than sold. Not more than 10 percent of the funds either in the form of loans or grants may be expended in any one State, except that contracts for capital grants aggregating not more than an additional \$35 million of the \$500 million grant authorization may be approved in States where more than two-thirds of the amount permitted under the 10-percent limitation has been obligated.

The Housing Act of 1954 (Public Law 560, 83d Cong.) enlarged the scope of undertakings under this program and provided for its coordination with other Agency programs specifically designed to assist localities in urban renewal.

PART III. RESPONSIBILITIES UNDER THE HOUSING PROGRAM

The housing program, both short term for the postwar era, and long term for the general good of the Nation, involves a farsighted legislative program by the Congress, enlightened and competent administration of the law by the administrative agency assigned that responsibility, and a sincere effort by the building industry to fulfill its economic responsibilities.

It is not difficult for a congressional committee to absolve itself of any fault and place the entire blame upon others. But there is no occasion for the Congress to accept responsibility which rightly belongs elsewhere. Perhaps the Congress was derelict in not sooner making a full inquiry into the administration of this program. The facts now available, however, show that some officials of FHA and some spokesmen of the building industry misled and deceived the Congress as to the administration of the act. It appears now that what they told this committee did not and could not happen was in fact quite routine. We inquire now as to how each of the responsible bodies discharged its responsibility.

SECTION A. CONGRESSIONAL RESPONSIBILITY

The Congress provided in section 608 that the FHA Commissioner could require the mortgagor —

to be regulated or restricted as to rents * * * capital structure, rate of return, and method of operation.

The Commissioner was also authorized to acquire \$100 of stock in mortgagor corporations for the purpose of enforcing his regulations or restrictions.

Pursuant to this statutory authorization FHA established a "Model Form of Certificate of Incorporation," which every section 608 corporation was obligated to use (Housing Act hearings, April 1954, p. 1971). This certificate of incorporation provided for \$100 of preferred stock to be owned by the FHA Commissioner and that—

no dividends shall be paid upon any of the capital stock of the corporation (except with the consent of the holders of a majority of the shares of each class of stock then outstanding) until all amortization payments due under the Mortgage insured by the Federal Housing Commissioner have been paid.

These provisions required the approval of the FHA Commissioner of windfall distributions, a fact wholly ignored in the administration of the act. FHA officials testified before this committee that the actual costs and the amount of the "windfall profits" distributed to these sponsors were available to them in the annual reports which were required to be filed with FHA. But Burton C. Bovard, former FHA General Counsel, testified that no one in FHA read the annual reports.

A most significant congressional act to have prevented these abuses was the provision enacted in June 1934, found in section 1010, title 18, United States Code, making it a criminal offense to file false state-

ments in connection with obtaining a loan or advance of credit insured by the FHA. That section is in part:

Whoever, * * * with the intent that such loan or advance of credit shall be offered to or accepted by the Federal Housing Administration for insurance, * * * or for the purpose of influencing in any way the action of such Administration, makes, passes, utters, or publishes any statement, knowing the same to be false, * * * or willfully overvalues any security, asset, or income, shall be fined not more than \$5,000 or imprisoned not more than two years, or both.

There was already in the Criminal Code, section 1001, title 18, enacted in 1909, a statute making it a crime to make a false statement to any Government agency. Therefore the enactment of section 1010 expresses a congressional awareness of the specific dangers involved in the housing program to be administered by FHA.

In 1935 an agreement was reached between FHA and the Department of Justice that the FBI would turn over to FHA all investigations of violations of section 1010. The FHA was given exclusive jurisdiction to police all cases of fraud and misrepresentation in connection with its operations. That arrangement was abolished on April 12, 1954, because of the failure of FHA to adequately investigate and initiate prosecutions under section 1010 for the filing of false statements with FHA. In the meantime FHA ignored this criminal statute and all but read it out of the law.

Not only did FHA fail to actively prosecute the numerous cases of misrepresentation and fraud contained in the section 608 applications, but it effectively prevented the FBI from investigating, and the Department of Justice from prosecuting, those cases under section 1010. The most important feature of this neglect of duty is that a majority of these violations occurred prior to 1950 and the statute of limitations appears to now bar successful prosecution. The committee is pleased to know that the FBI has again assumed jurisdiction over violations of section 1010 and that the Housing and Home Finance Agency has established a compliance division to prevent a recurrence of these past derelictions of duty.

As early as 1947 this committee was concerned by the fact that in some cases the FHA mortgage insurance on section 608 projects represented more than 90 percent of the actual cost (S. Rept. No. 772, 80th Cong.). The committee was also concerned that FHA was estimating costs on the basis of the costs of the average builder rather than on the costs of the more efficient builders. There was no desire to subsidize the less efficient builders.

Realizing the danger of financing unnecessary and artificial costs, the committee reported, and the Congress adopted, an amendment to section 608, directing the FHA Commissioner, in estimating necessary current costs to—

use every feasible means to assure that such estimates will approximate as closely as possible the *actual costs of efficient building operations*.

This amendment became Public Law 394, 80th Congress, December 27, 1947.

While such a standard for estimating costs should have been adopted by FHA on its own at the beginning of the program, it even completely ignored this congressional mandate. The record discloses no action by FHA to make this amendment effective other than a letter sent by the Commissioner to State directors and chief underwriters which quoted the amendment and added:

* * * Therefore, you are directed to take such steps as may be appropriate to make certain that necessary current cost estimates do not reflect costs of inefficient building operations * * * (Housing Act hearings, April 1954, p. 1967).

If FHA had adopted the standard required by the 1947 amendment the "windfall profits," which reached their peak in 1949, 1950, and 1951, could not have occurred in anything like the volume we have seen.

Most, if not virtually all, frauds and irregularities disclosed by these hearings could not occur if FHA had: (1) Required truthful statements by builders in their applications through the criminal prosecution of those who failed to do so; (2) made realistic estimates of costs based on the actual costs of efficient building operations; and (3) used the corporate charter provisions authorized by the statute to check on the activities of builders following the issuance of the FHA commitment.

Notwithstanding the repeated assurances by builders and FHA Administrators, Congress should have sooner looked into the repeated rumor of irregularities in the section 608 program. The investigative power and responsibility of the Congress should be diligently utilized to permit the Congress to know how its laws are being administered. The Congress should not have relied on the misstatements to it by some builders and some FHA officials.

SECTION B. ADMINISTRATIVE RESPONSIBILITY OF FHA

It has been frequently said that the best law the mind of man is capable of drafting will not work if incompetently and improperly administered; and that the worst law of the Congress will not result in inequities if properly and competently administered.

Some FHA employees administered the National Housing Act in a neglectful, incompetent, and dishonest manner, in striking contrast to the high standard of service and integrity this Government is generally accustomed to receiving from its public servants.

The general attitude of FHA seems to have been that it was an agency for the builders and for their benefit. While deeply concerned with inducing builders to construct more projects, FHA appears to have been unconcerned in maintaining the standards of integrity and competence required of Government agencies in the public interest.

INTEGRITY OF FHA PERSONNEL

Thousands of people were employed by FHA and we do not mean to infer that all, or any great percentage, of them were dishonest. At the same time we do not believe that the incidents discussed below are isolated cases or that our investigation uncovered anywhere near all cases of such irregularities. It is still difficult to believe that a man like Clyde L. Powell could head a multi-billion dollar rental housing program for so many years.

Clyde L. Powell, former FHA Assistant Commissioner for Multi-family Housing was employed by FHA in 1934 and was in charge of the section 608 program from its inception in 1942 through its termination in 1950.

FHA General Order No. 4 issued in 1947 gave Powell authority to issue commitments, increase, modify or extend commitments, approve change orders during constructions and otherwise supervise

insurance contracts not only under section 608 but also under all other multifamily rental programs. Powell's record, as shown by this committee's hearings, discloses maladministration and dishonesty in Government, at its worst. No program could be expected to have been honestly and efficiently administered while headed by a man such as Powell.

In his application for employment by FHA, Powell categorically denied that he had ever been "found guilty by a court of any crime, either misdemeanor or felony."

Powell's arrest record, long antedating his employment by FHA, was furnished to this committee by the Federal Bureau of Investigation. The Federal Bureau of Investigation report is printed in the appendix (p. 127).

That arrest record had been referred to the Civil Service Commission by the FBI on two occasions—August 14, 1941, and January 10, 1948—in connection with routine loyalty checks. The Civil Service Commission as a matter of practice referred such records to FHA. However, those arrest records cannot be found in the FHA files. Who removed these reports and who thereby covered up for Clyde Powell has never been disclosed by our investigation.

At the preliminary hearing held in April, Powell was asked, "How long have you been with FHA?" He declined to answer "upon my constitutional protection against being compelled to be a witness against myself." His attorney advised the committee that he would refuse to answer, on the stated ground, any question "Regardless of whatever nature" that might be asked of him.

In June, Powell was called at the opening of the committee's formal hearings. He was asked questions concerning the processing of section 608 applications, concerning his prior criminal record, and about his dealings with certain identified builders. To these questions he again invoked the privilege of the fifth amendment.

At the conclusion of the hearings in October, Powell was again called before the committee. He was then asked about large bank deposits he made in excess of his Government salary. He again refused to answer on the ground of his privilege against self-incrimination.

Subsequently, Powell was found guilty of criminal contempt by the United States District Court for the District of Columbia for refusing to give information to a grand jury, investigating the FHA scandals, after he had been directed to do so by the court.

One consequence of Powell's refusal to testify is that the builders who "dealt" with him have had the security of knowing that the Government would not learn from him of their illegal operations.

The records of the Riggs National Bank, where Powell maintained a checking account, show that in the period from January 1, 1945, to April 30, 1954, Powell made deposits of \$218,330.89, of which deposits \$101,220.10 was in currency. During this period his net Government salary, including reimbursement for travel expenses was \$80,265.49. Those deposits are \$138,365.53 more than he had earned. His Federal income-tax returns for those years disclose no income whatever other than his Government salary. Financial statements given the Riggs National Bank in connection with loans he made during the early part of that period showed no substantial assets.

Powell also maintained safe-deposit boxes at the Wardman Park Hotel, where he lived, and at the Riggs National Bank. The hotel did

not record his entries into that box; but the records at the bank show he frequently entered that box, often 3 or 4 times a month. Significantly, he discontinued depositing cash in his bank account in January 1950, and on July 18, 1950, he rented a larger safe-deposit box at the bank, just double the size of the one he previously occupied. The record also shows that he visited this safe-deposit box on the day after the President disclosed the existence of the housing scandal (April 13, 1954).

Powell otherwise dealt in large sums of money. In December 1953, he purchased a lot for \$12,000 in what perhaps is the most exclusive section of Washington. He paid \$11,000 of that purchase price by cashier's checks, of the Riggs Bank, purchased the same day that he made a visit to his safe-deposit box. He paid \$1,500 to a builder to draw plans for a house to cost \$56,500. Powell then lived in a hotel and presumably would also have to furnish and equip his new house. This project, including the construction, furnishing, and equipping of the house, appeared to involve commitments approaching \$100,000. His Government salary was less than \$12,000 a year, before taxes.

Powell appears to have been an exceptionally heavy gambler, particularly on horseraces. Several witnesses testified to his frequent visits to racetracks. A former "bookmaker" testified that during a period of 9 months in 1940 and 1941 Powell made horserace bets with him averaging \$100 to \$120 a day. One day in 1941 Powell lost \$1,500 on 1 day's races. He did not pay his loss and the bookie stopped calling on him.

Notes of Powell in the amount of \$8,900 were deposited to the account of John "Black Jack" Keleher during the period from May 27, 1942, through August 13, 1946. Keleher refused to answer questions about his business activities during this period on the ground that such answers might tend to incriminate him. It is common knowledge that Keleher was a prominent "bookmaker" in Washington during that period of time. During a lengthy examination Keleher would testify only that he had no real-estate business with Powell.

On June 2, 1948, Powell purchased a cashier's check from the Riggs National Bank for \$8,650 payable to Rocco De Grazia. He paid the bank for this check in currency of \$1,000 and \$500 denominations. De Grazia is reputed to be the owner of the Casa Madrid in Melrose Park, Ill., a nightclub and gambling house. De Grazia could not be located by committee investigators and Mrs. De Grazia availed herself of the fifth amendment when asked pertinent questions.

On August 20, 1950, Powell lost \$5,000 "shooting craps" at the Dunes Club in Virginia Beach, Va. Accompanied by W. Taylor Johnson, a Norfolk realtor, who was his host, and Frederick Van Patten, former FHA zone commissioner, and then Johnson's partner, Powell gambled at the Dunes Club from shortly after midnight that day until between 6 to 8 o'clock the following morning. The gambling was preceded by a luncheon and a dinner the previous day, celebrating the completion of a section 608 project. Throughout the festivities there was considerable drinking. Powell entered the gambling house with a roll of bills, said by Van Patten to contain at least \$2,000.

Johnson subsequently gave Powell \$3,000 in cash to compromise his losses with the owners of the Dunes Club. Johnson, who had

interests in 5 section 608 projects, charged this \$3,000 as a financing expense of his Mayflower Apartments project.

The committee heard almost countless rumors of irregular financial transactions with Powell. In most cases, it was impossible to obtain evidence either to corroborate or to disprove the story. The other party to the transaction would, of course, be just as guilty as Powell in any such dealings.

Testimony of Nathan Manilow, a Chicago builder, further related to Powell's transactions. A \$7,500 draft deposited in Powell's account at the Riggs bank was traced to a Chicago bank and then to Manilow.

Manilow owns half the common stock of American Community Builders, the remainder being owned by Philip Klutznick, former Federal Public Housing Administrator. Manilow testified that he gave that stock to Klutznick and that it is now worth about \$2.5 million.

American Community Builders received \$58 million in FHA mortgage-insurance commitments for projects in Park Forest, Ill. Included in this total were 9 section 608 projects with mortgages of \$27.8 million. During the construction of these projects Powell did several things for the benefit of these sponsors, including his approval of an increase in the mortgage commitment of \$590,000.

Manilow testified that in March 1948, the Illinois FHA State director, Edward J. Kelly, telephoned him to say that Powell "was in a difficult situation" and wanted Manilow to lend him \$7,500. Manilow made the loan on March 9, 1948. Prior to that date, Mr. Manilow had requested permission from FHA to collect 2 months' rent in advance on his leases and to invest this money. On March 24, 1948, Edward J. Kelly recommended to Powell that the request be granted and Powell did so on that date.

Manilow testified that \$2,000 of the loan was repaid to him by check in December 1948. He claimed that Powell repaid the balance of \$5,500 in currency sometime between December 1948 and March 1949. He said there were no witnesses to the payment, no evidence that it was paid, and that he merely put the currency in his pocket and spent it. However, in his 1949 income-tax return filed in March 1950, Manilow claimed this \$5,500 as a bad debt. He listed the debtor merely as "C. Powell." In 1952 an internal revenue examiner disallowed this \$5,500 as a deduction, in a routine audit, because there was no proof that Manilow had ever attempted to collect it.

Even more serious was the testimony of Albert J. Cassel. Cassel, an architect and former associate professor in architecture at Howard University, was one of the sponsors of Mayfair Mansions, a section 608 project in Washington, D. C. In December 1946, when this project was nearing completion, an additional FHA commitment of \$709,000 was obtained to pay off preferred stock held by contractors in connection with prior debts. Cassel testified that he did not know who obtained the increased commitment but that he did not. Cassel testified that when he went to Powell to pick up the commitment, Powell demanded \$10,000 for his services before he would sign the authorization. Cassel paid the \$10,000 in currency and received the additional \$709,000 commitment.

Other facts point to a direct connection between Powell and sponsors of section 608 corporations that made "windfall profits." Powell's appointment books show frequent visits by many such sponsors to

his office. Telephone company records show many phone calls between Powell, both at his office and at his home, and many of those who made "windfall profits." The records of some of these same sponsors also showed large expenditures in cash which they could not explain.

The sordid story of Clyde L. Powell was one of the principal reasons that an investigation of the FHA was necessary. The complete scope of Powell's activities during his 20 years will probably never become known, especially if the one man who knows the answers persists in his refusal to talk.

Although no other employees of the FHA are known to have engaged in illegal activities on the scale of those by Powell, there are many other cases of FHA personnel receiving gratuities from builders, accepting part-time employment from builders, and engaging in other unethical practices.

Thomas Grace is an outstanding case involving "conflicts of interests." Thomas Grace was New York State FHA director from August 8, 1935, to August 1, 1952. Prior to his employment by FHA he was a partner, with his brothers, in the law firm of Grace & Grace. He remained a partner in the law firm after becoming State director. Grace & Grace, or his brother George one of the partners, were connected with 64 FHA rental housing projects processed in the New York office while Thomas Grace was State director. These 64 projects involved FHA mortgage commitments of \$84,771,030. George T. Grace, or the firm, received \$400,000 in connection with FHA matters, including \$291,000 in fees.

Thomas Grace maintained that he was an "inactive" partner in the firm, but his name appeared on the stationery, on the building registry, and on the door of the law firm's office. Moreover, Thomas Grace withdrew \$38,758 from the firm's account and was paid \$8,850 by his brother George in the years 1946 through 1951. In at least 2 years the law firm filed a partnership tax return, showing Thomas Grace as receiving 25 percent of the firm's earnings.

The testimony concerning the Warren Gardens project may give the reason George T. Grace's services were so valuable. The original application filed in May 1949, asked for an FHA commitment for \$325,000 to build a section 608 project. In almost 6 months the application had not been acted upon. The sponsor was advised by friends to change lawyers and to hire George T. Grace. He did so and in less than 3 months an amended application for \$485,000 was approved.

John William Salmon, employed by the FHA in November 1934 and put on annual leave in August 1954, was chief appraiser of the Los Angeles office. In that position he was responsible for the appraisals on all FHA projects including those under section 608. He and his wife Tress received from builders doing business with FHA at least \$25,300 in cash, a Ford automobile, and a home purchased at a discount price. Some payments were said to be for services of Mrs. Salmon.

Arthur B. Weber and Richard S. Diller were particularly generous to the Salmons. Weber and Diller built three section 608 projects—Baldwin Gardens, Wilshire-La Cienega, and Monte Bello Gardens. The Government-insured mortgages on these projects was approximately \$5 million, their windfall was \$417,000 and, of course, they still owned the properties.

Their biggest windfall was \$277,154 on the Baldwin Gardens' \$2 million mortgage. Since the law provided for mortgages not

exceeding 90 percent of estimated costs, the FHA estimate was off almost 30 percent. Salmon signed the project analysis on Baldwin Gardens as chief valuator.

In October 1949 the Salmons purchased a home from Diller-Weber Co. for \$10,000. The house next door, virtually identical, was sold for \$15,500 at about the same time to a non-FHA employee.

Weber and Diller were also connected with gratuities to two other FHA employees—Maurice Henry Golden and Kenneth F. Mitchell.

Maurice H. Golden was employed by FHA from 1938 to 1954 and was assistant chief construction examiner in the Los Angeles office. In 1949 Weber, Diller, and a number of other builders collected an \$11,000 hospital fund of which \$7,000 was spent on hospital bills for Golden's daughter. The remaining \$4,000 was put in his personal bank account and in part used to buy a new automobile.

Kenneth Mitchell was chief land planning consultant in the FHA Los Angeles and Long Beach offices. In June 1949 Diller-Weber Co. sold him a home for \$11,400 in the same subdivision in which Salmon had purchased. Four months earlier the house next door on one side had sold for \$16,300 and 2 months later the house next door on the other side was sold for \$16,600. Other houses on the same street sold for prices ranging from \$15,250 to \$16,600.

Throughout the country it appears to have been the established custom for builders to give Christmas presents to FHA personnel. It was not infrequent for builders to give parties to which FHA people were invited. In New Orleans parties were given regularly by builders in connection with the closing of section 608 mortgage commitments. Five or six top officials of the New Orleans FHA office were generally in attendance at such parties with their wives. In 1948 Shelby Construction Co. gave a party at the Roosevelt Hotel on closing the FHA commitment on the Parkchester project and in 1949 it gave a party at the Beverly Club in connection with the closing on Claiborne Towers. Shelby also gave fishing trips for FHA people. Its financial success in FHA projects indicates these expenses were a good investment. One official in the New Orleans office with a good memory gave a long list of parties, fishing trips, and Christmas presents he had received from builders. A New Jersey official provided a long list of gift certificates he had received from builders.

William V. Yates, chief underwriter at the Jackson, Miss., FHA office, received automobiles from Henry F. Sadler, a builder of 2 section 608 projects who also had an automobile agency. In 1951, Yates made an even trade with Sadler of a 1949 Pontiac for a 1951 Pontiac. In 1953, he again made an even trade of his 1951 Pontiac for a 1953 Pontiac. In that transaction Yates made out a check for \$1,200 to the order of Sadler. Sadler endorsed the check but gave it back to Yates who then deposited the check in his own account. Sadler received no money on the trade.

There were many instances in which FHA employees were hired by builders to work on plans that were to be submitted to FHA for approval. FHA employees, in their official capacity, have approved plans that they themselves had drafted for builders.

Joe E. Crawford was a construction examiner in the Denver FHA office from 1943 to 1951. He was hired in 1950 by C. L. Whitchurch and Otto Zurchin to help them on plans which were to be submitted to FHA for approval. Whitchurch testified that having Crawford

draft the plans "greased the wheels" since Crawford knew all the FHA requirements. There were several transactions between Whitchurch and Crawford, but the testimony was conflicting as to the total amount Crawford received.

At least two other builders paid Crawford for help on plans and there was testimony that Crawford approached Forrest Ross, a builder, with the suggestion that Ross hire him to draw his plans, Crawford indicating that his services might get Ross a better break from the FHA. Ross did not avail himself of Crawford's services.

Whitchurch also paid Neal Williams, in the architectural section of the Denver FHA office, \$1,500 for work on a model home for the Denver Home Show.

Horace J. Moses was employed by FHA from 1939 to September 1954 as a construction examiner in the Los Angeles office. In 1949 and 1950 he received \$9,200 from T. A. Newcomb, who represented builders of section 608 projects processed in the Los Angeles office. In 1950 Moses was paid \$1,600 by Curtis Chambers, an architect, for FHA builders.

William D. Sorgatz was chief architect in the Chicago FHA office from 1938 until August 1954. Sorgatz testified to receiving approximately \$10,000 in connection with architectural work on plans that were later processed in his office.

Charles Elliot was an assistant FHA State director in Oregon from 1946 to 1949. He testified to receiving approximately \$3,000, through an associate in his law office, for reviewing contracts for an FHA builder, and to receiving a commission of approximately \$4,000 on the sale of a plot of land on which there was later built an FHA project.

Andrew Frost had been employed by FHA from September 1934, to June 1954 at which time he was assistant New Mexico State director. Frost was questioned before the committee about fishing trips given by builders, gambling winnings with builders, girl parties and other gratuities from builders. To each question Frost availed himself of the constitutional privilege against self-incrimination.

Fred W. Knecht and *Harry L. Colton* were respectively construction cost examiner and chief underwriter in the Grand Rapids, Mich., FHA office. They were also partners in an architectural firm which drafted plans later submitted to FHA for approval. On at least one occasion they induced an architect, who had not drafted the plans, to sign their plans so that they could, as FHA officials, approve the plans. Knecht and Colton received over \$20,000 from their architectural firm while employed by FHA.

Joyce A. Schnackenberg was FHA State director at Grand Rapids. His brother, Rex, and Fay West were partners in several building companies which received FHA commitments from the FHA Grand Rapids office. Schnackenberg induced two FHA employees to do accounting and secretarial work for those companies. There was evidence that he received funds from those companies. When asked the relationship between Fay West and himself, Schnackenberg availed himself of the privilege against self-incrimination.

Hugh Askew indicates a *different* and *unrelated* aspect of the integrity of FHA employees in his collection of political contributions from FHA employees. Askew was employed by the FHA in 1934 and,

when he resigned on March 1, 1954, was Assistant Commissioner in charge of field operations.

Askew was the FHA Oklahoma State director from May 1, 1946, to July 1, 1947. Oklahoma was then divided into two districts and until July 1, 1952, he was district director for the district with headquarters in Oklahoma City. With the help of John F. Pratt, Jr., assistant director, Askew sold tickets to the annual Jackson Day dinners to FHA employees in that FHA office on behalf of the Democratic Central Committee. In files in his office were lists of those employees who had made contributions as well as those who had not. Askew could give no reason for listing those noncontributors or for recording the reason for their refusals, such as putting down opposite one name, "Don't owe Dem anything."

Askew admitted giving sales talks to employees to make such contributions, which he considered comparable to raising funds for the Red Cross, March of Dimes, and the Shrine. This conduct appears to be inconsistent with the purposes of the Hatch Act.

Many honest FHA employees appear to have been aware of the prevailing shady practices, but felt they could do nothing about it. Some felt they had to keep quiet to keep their jobs. There were, however, some courageous employees who refused to go along with improper practices and preferred to resign in protest. William F. Byrne and Howard B. Jarrell are two employees who stood by their principles and were forced to leave their jobs.

William F. Byrne was employed by the FHA in 1938. When he resigned on March 1, 1947, he was chief mortgage-credit examiner of the Chicago office. Byrne had disapproved the credit responsibility of Axel Lonquist, sponsor of the Frank-Lon Homes, Inc., project, on the basis of insufficient working capital. Byrne thereupon received a memorandum from his immediate superior, Carl A. Jackson, chief underwriter, that in part states:

I therefore direct that you process the above cases for firm commitments, and sign the mortgage-credit reports for the chief underwriter. I will appreciate your prompt attention to this matter so that commitments may be issued promptly. * * *

Byrne refused to comply with the directive and he resigned. The application was approved, but the sponsor did have financial difficulties and was not able to himself complete the project.

Howard R. Jarrell was chief underwriter in the Oklahoma City FHA office from November 1945 until February 1947. In December 1945 Zone Commissioner Frederick A. Van Patten told Jarrell that he was too "tight" in his work and that he must raise cost estimates in order to cultivate good public relations with builders and mortgagees. Jarrell objected to doing so without written instructions, but Van Patten refused to put his request in writing.

Jarrell also testified that as chief underwriter he had authority to raise OPA ceiling sales prices on homes by 5 percent if in his discretion conditions warranted it. Hugh Askew directed him to add this 5 percent in all cases, but Jarrell refused.

Jarrell's testimony further indicates that the measure of success in the Oklahoma City office was the volume of business done with the builders and that there was a great relaxation of the requirements and regulations. The constant pressure and demands for variances in the interpretation of underwriting instructions so impaired Jarrell's

health that his physician advised him to resign. Jarrell went on sick leave without pay in February 1947 and finally resigned in November 1947. He had since returned to FHA.

FHA NONFEASANCE

Burton C. Bovard, FHA General Counsel from 1940 through April 1954, in his testimony before this committee, helped materially to put in proper perspective FHA's administration of the housing program. Bovard was employed by FHA in 1934 as an administrative assistant. Shortly thereafter he became an attorney in the Legal Division, then was made Assistant General Counsel, and in 1940 was appointed General Counsel. Bovard was legal adviser for a \$34 billion housing and home-repair program. The testimony shows that he is an honest man and no contrary inference is here intended. His testimony (at our June hearing, but not at the earlier hearing in April) was frank and not evasive. Nevertheless he exhibited an inability to cope with the important problems raised under the National Housing Act and its administration.

The charter of every section 608 corporation, the forms for which were prepared under the supervision of the FHA General Counsel, prohibited the payment of dividends, except out of earnings, without the consent of the FHA Commissioner. This safeguard was adopted following express statutory authorization. Had it been followed the windfall frauds could not have happened.

Bovard was asked in the public hearings:

How all these corporations could distribute these windfall dividends, without the consent of the Federal Housing Commissioner, when the articles of incorporation and the law required the Housing Commissioner's consent to the payment of those dividends?

FHA's General Counsel for 14 years replied:

It would be violating the charter if they did it, I would think.

Bovard acknowledged that FHA had the power to and did require these corporations to file annual audits with FHA. He acknowledged that most of the corporations did so and that "very likely" these audits disclosed the distributions of windfall dividends. Our examination reveals that they in fact did so. Bovard testified that he knew nothing about the audit reports or the dividend distributions. He did not recall any of the Commissioners ever asking for his opinion as to whether they could permit these dividends. When asked if he knew that these dividends were being distributed, he replied, "I did not." When asked if they kept that fact from him, he replied, "they probably didn't know it themselves." But when he was reminded that they could not help but know that fact if they had read the audit reports, he replied, "Yes; but they didn't read the audit reports" (investigation hearings, June 1954, p. 294).

Bovard was then asked whether he would have advised against it, if Powell had asked him for an opinion as to whether these dividends could properly be declared. He replied:

Why of course. We would have advised against any violation of the charter. * * * I know, however, that dividends—I think there is a requirement in there—that dividends can only be paid out of earnings (investigation hearings June 1954, pp. 294-295).

The files of FHA today contain literally thousands of audit reports submitted by sponsors of section 608 corporations. The "filing" stamps on these reports shows that they were filed annually from the inception of each project. The reports in most of the cases in which there have been windfall distributions clearly disclose the payment of those dividends. A failure to have known that such distributions were unlawfully taking place could only have resulted from a failure to have even perused those financial statements.

As General Counsel, Bovard was responsible for the investigative staff of FHA. He admitted that reports of gambling by Powell had come to his attention, and that he failed to ask the FBI to investigate these charges, although he conceded that it was the function of the FBI to investigate charges of irregularities against Government officials. He testified, with respect to those charges against Powell, that—

if it was a charge relating to an irregularity, the FHA should investigate for purposes of administrative action, and it is only if the charge indicated a violation of a criminal law, as I understand it, that it would be turned over to [the FBI].

When asked if he did not consider the fact that a man on a relatively modest salary was able to lose large sums of money gambling would indicate a possible violation that the FBI should investigate, he replied, "I don't think that gambling would be a crime." When his attention was again called to the possibility that a crime might be inferred from the fact that Powell had the funds to lose thousands of dollars gambling, Bovard replied, "I don't think that would be a crime either" (investigation hearings, June 1954, p. 280).

There is discussed elsewhere in this report the problems inherent in having virtually encouraged builders to file false estimates in their applications. This resulted from a legal opinion by Bovard that such false statements did not constitute a criminal offense.

This question first arose in 1951, when the United States attorney at New Orleans communicated with the Attorney General, apparently intending criminal prosecution in connection with misstatements in the application on one of the Shelby Construction Co. projects. The Attorney General wrote Bovard with respect to allegedly false statements given in that application concerning architect's fees. On August 14, 1951, Bovard wrote Attorney General J. Howard McGrath a letter which is, in part, as follows:

Our files indicate that as far as this Administration can determine the requirements of this Administration have been met, or at least we find no evidence of violation of our requirements nor any evidence indicating any fraud against the United States in connection therewith. As you know, the determinations made by this Administration with respect to the maximum insurable mortgage must necessarily be based upon estimates.

At our hearings Bovard was asked whether it would be a criminal offense for a sponsor to estimate architect's fees at 5 percent in his application, "if in advance of filing the application the sponsor knew that his architect's fee was only to be a half of 1 percent." Bovard replied, "I don't think it would be a misrepresentation at all."

On April 30, 1951, Bovard again wrote the Attorney General with respect to a prospective prosecution concerning the Joseph B. Williams, Inc., project in Newberry, S. C. Bovard then wrote that he was informed that the United States attorney proposed prosecution under the "specific" provision of section 1010 (the special provision

against filing false statements with FHA) and that therefore he assumed FHA "would be expected to take some further action in regard to the matter." Bovard advised the Attorney General that no further investigation was necessary because it was clear there had been no criminal offense. His letter is, in part, as follows:

Any prosecution would appear to be based upon the submission of a false statement for the purpose of influencing the action of the Federal Housing Administration, and on this point it is believed that the following facts in regard to the actions taken by the Administration would be of material significance. The determination made by the FHA as to the maximum insurable mortgage is based upon the FHA estimate of the replacement cost of the building improvements, and such estimate is not influenced by the amount of the contract executed for the construction of the improvements. * * * The fact that the actual construction contract may have been different in amount than the contract presented to this Administration and that the contractor encountered financial difficulties in performance did not, so far as we can determine, have a material effect on the ultimate security provided.

The Attorney General apparently had not asked for Bovard's opinion, but his letter concluded by saying that, while it was not his purpose to discourage prosecution, he felt compelled to point out that it could not be established that any "side agreement" with respect to that project which was not disclosed to FHA, could have any bearing on FHA's determination.

A similar letter was written by Bovard to the Attorney General on one of the Warner-Kanter projects in St. Louis.

The view taken by FHA with respect to the prosecution of persons filing false applications was expressed to this committee, by Warren Olney III, Assistant Attorney General in charge of the Criminal Division, as follows:

We have had this experience, that we have learned it has been impossible to make criminal cases out of those section 608's because FHA takes the position that even though we can prove that false estimates and false statements have been submitted by the promoters of these projects, FHA said they don't rely on them, and although they admit that they are false and that they are lies, because we don't rely on them we can't make a criminal case * * *. And that, Senator, is why it is impossible for the Department of Justice to prosecute on these section 608 cases, because we cannot prove that the Federal Government was defrauded, in the face of FHA's own statement that they never relied on these false statements, so they are in the position of saying that they weren't deceived or defrauded; they were just giving this stuff away (Housing Act hearings, April 1954, pp. 1616-1617, 1623-1624).

A final act of FHA staff indifference occurred April 12, 1954. The President that day ordered all FHA files impounded. William F. McKenna had been appointed Deputy Housing and Home Finance Administrator to investigate the FHA program. McKenna testified that on April 12 he read the President's order to the Deputy FHA Commissioner Greene in the presence of Howard M. Murphy, FHA Associate General Counsel; that the order required all field directors to be notified that the President had impounded the files; and that Murphy thereupon advised that—

Mr. Greene was in danger of having to pay for any telegrams he sent out in response to the President's order out of his own pocket, because Mr. Murphy doubted whether the President of the United States had any control over the Federal Housing Administration, except to appoint the Commissioner with the advice and consent of the Senate * * * (investigation hearings, June 1954, p. 4).

FHA had ignored the congressional suggestion for controlling dividends, it had flouted the congressional mandate with respect to

appraisals being based on "actual costs of efficient building operations," it had denied the Attorney General the opportunity to prosecute the filing of false applications, and its Assistant General Counsel questioned the President's authority to impound its files. This is bureaucracy at its worst.

FHA DECEIVED CONGRESS

On July 29, 1949, Franklin D. Richards, FHA Commissioner, and Clyde L. Powell, Assistant Commissioner, testified before this committee. In the light of subsequent information now publicly available, their testimony was certainly misleading. We quote pertinent portions from the transcript:

Senator LONG. I see. This also has down here that there are allowances based on the appraised value of land in use as a rental development, rather than its acquisition cost.

As I understand that, a man is permitted on the amount of the mortgage to estimate what the price of the developed land is rather than the price he actually paid for it. For example, if I go to a section of town where there is a substantial amount of vacant property developed but not where he is, if I could buy that relatively cheap, say \$1,000 an acre, and I developed it, I would be entitled to more or less look at the developed cost which might be \$5,000 an acre, rather than the cost that I paid for it, I take it.

Mr. RICHARDS. I would like to ask Mr. Powell to tell you about that specifically. But let me say this, of course, that most all land where relatively large projects are developed is what we call normally raw land, and it has to be improved. It costs money to put streets, utilities, sewers, so on and so forth, in there.

So our value is based upon the land ready for use. Will you go into detail on that?

Mr. POWELL. You explained it pretty well there, Mr. Richards. We take the *actual going market price* of the land *in its present state*; and in order for it to be usable in a multifamily rental housing project, it might have to have streets paved on the outside; we might have to bring up a sewer line, water mains, and so forth to permit it to be used.

Senator LONG. To make it ready for use. You would permit that cost in the value of the section 608 project?

Mr. POWELL. Yes.

The testimony shows it was quite routine for FHA to value land at 2, 3, or 4 times, and frequently far more, the actual market price, plus the cost of utilities.

Senator LONG. Of course, that is a point I was getting around. I have never seen a contractor yet who stayed in business over a long period of time and got to be very successful bidding on a job but what if he performs, he usually manages to get that building up in a little less than the estimated cost, and there is a little saving produced there usually. I mean it is a general practice among contractors. Some might run over it.

Mr. RICHARDS. However, we have a large volume of business, as you know, and maintain cost estimators and analysts in each of our offices; and it is their duty and responsibility exclusively to be in the field and check these costs all the time.

Now, as you indicated, a very successful contractor knows how to operate his business on a basis where he does not lose money. The actual cost of construction, including these items that you have mentioned here, vary from builder to builder.

I suppose if you took 10 builders in New Orleans or any other city who would produce exactly the same structure, you would find it would cost each one of them something different. So we try to get what we estimate would be the cost to the *typical builder*, not to the *very most efficient* or not the *poorest* builder, but the *typical* builder.

That testimony was given 2 years after Congress had amended the law to require that estimates be based on the actual costs of "efficient building operations."

Senator LONG. * * * I have a friend who constructed one of these section 608 projects, who told me that he managed to construct his project for 70 percent of the estimated cost. * * *

I will tell you, to begin with, this particular person who made that statement to me, is, in my opinion, one of the most efficient builders I have ever known. The evidence of that is that he has made more money in the building business than any young man I know, and undoubtedly he is extremely efficient.

But do you think that it is possible, even for the most efficient type builder, to actually construct his project at 70 percent of the estimated cost?

Mr. POWELL. No; I do not think so.

Mr. RICHARDS. I do not think so.

Mr. POWELL. I do not see how that is possible, because we are right on top of local construction costs. We get a determination from the Secretary of Labor as to the wages that he must pay for all the mechanics on the job. If he does not violate the statute, he must pay that wage rate.

We estimate the length of time it takes to construct that job, and make an estimate of all the materials that go into it, such as plumbing, heating, plastering, electrical work, and all that. Our figures are on the current market, not on the national market, what it costs in this particular community. We might be off 2 or 3 percent. *I do not think it could be physically possible to be off anything like 30 percent.*

* * * * *

Senator Long again raised the point of excessive valuations:

Senator LONG. * * * But do you know of any other ways where a man by prudence or by care or by any other manner of handling his project might come below or might further reduce his cost in building one of these projects?

Mr. POWELL. I do not see how he could, unless our local estimate of the cost of the production of the structures would be far in excess of what it would actually cost him to build.

Senator BRICKER. There have been many instances like that, have there not?

Mr. POWELL. Not to my knowledge, sir.

Senator BRICKER. You do not know of any?

Mr. POWELL. No, sir.

Finally Senator Long again asked the question:

Senator LONG. You do not think a man could construct a project then, even if you include his own profit, for 30 percent below what the actual estimated cost of the project was?

* * * * *

Mr. POWELL. Well, Senator, if he did, I would say that our office had made a pretty serious error in estimating the cost of the job. It has never been called to our attention, and I do not see how you could miss an estimate of cost on an ordinary housing project of any 30 percent.

This record shows many cases in which actual costs were 30 percent less than the FHA estimates of cost. That testimony occurred July 29, 1949, Powell, apparently willfully, then deceived this committee. On July 1, 1949, Lester H. Thompson, FHA Comptroller, sent Powell a memorandum that the recently filed first annual statement of Elisabeth Apartments, Inc., disclosed a dividend of \$550,000 in the first year. The memorandum observes that the charter provides that dividends "can only be paid out of net earnings" and that "the maximum amount permitted by the charter was \$35,494.24." This \$550,000 dividend was a windfall distribution out of the mortgage proceeds of a \$4,467,100 mortgage.

On July 27, 1949, 2 days before testifying before this committee, Powell wrote the President of that corporation:

In reviewing the certified public accountant's audit report covering the above corporation for its fiscal year ended April 30, 1949, we note that dividends in the amount of \$550,005 were paid, whereas the net earnings, after making provision for required amortization and deposits to the reserve for replacements of the corporation, aggregated \$35,494.24 only. In our opinion, permissible dividends should have been limited to the latter amount.

Subsequently, Powell wrote the corporation approving the dividend payment. The FHA's then General Counsel has testified such dividends were unlawful. Every section 608 corporation was thus limited as to dividends and each was required to file similar annual statements. These statements, still available in FHA files, consistently disclose the payment of the dividends. It is not possible that Powell did not know of the windfall profits when he then testified before this committee.

SECTION C. INDUSTRY RESPONSIBILITY

The organized home building and financing industries must share with the FHA responsibility for abuses and irregularities under the National Housing Act. While only a relatively few members of the industry were involved in the irregularities, the national associations consistently acted to protect this minority, to the detriment of the honest majority of the industry. The industry consistently misrepresented to the Congress from 1942 through 1950 the existence of wrongdoing and, as a consequence, also denied the Congress the benefit of their expert knowledge.

The industry associations sought to thwart and to minimize the efforts of this committee to investigate housing frauds. Instead of giving us their wholehearted support in ascertaining the facts, and to help clean up a bad situation, these associations instead devoted themselves to justifying the activities of an unscrupulous few.

BUILDING INDUSTRY OPPOSES INVESTIGATION

The *National Association of Home Builders* has publicly impugned the motives for this investigation and has even sought to ridicule this committee. An April 14, 1954, press release of Richard G. Hughes, president of the Home Builders Association, contains these rash statements even before the inquiry had started:

While I realize there may be some publicity value inherent in investigations, the facts show that the FHA operations currently under question represent far less than 10 percent of the agency's total operations. Let us not let a very small tail wag a very big dog. * * *

The White House readily admits that housing is the main prop of our postwar economy, Hughes pointed out. I hope they won't forget it. * * *

He charged that the circus atmosphere under which the attacks on FHA operations were made gives the public a false impression of FHA, and certainly unjustly puts a black eye on reputable builders everywhere. (Housing Act hearings, April 1954, p. 1464.)

This reference to these hearings as a "circus" may indicate the view of the Home Builders Association, but we do not believe that the American people regard the "performance" as in any way resembling the frivolity of a circus.

Following the lead of its parent organization and not impressed by the previously exposed revelations, Arthur C. Wright, president, Home Builders Institute of Los Angeles, made the following public statement coincident with the committee's hearings in that city last September:

Arthur C. Wright, president of the Home Builders Institute, spoke out in praise of the Federal agency, and the Nation's home builders to counteract "serious public misunderstandings" that might arise from the hearings being conducted here by a Senate subcommittee. * * *

He declared that both political parties voted for provisions making possible the so-called windfall profits now under investigation in connection with the financing and construction of rental properties, homes, and home improvements. * * *

Consequently, he charged, "a stigma has been placed on the home-building industry and one of the finest units of Federal Government because of the sharp practices of a relatively few rental building contractors." * * *

Let us remember that in our dynamic, growing country, there is still a big job to do and everybody—the public, the Government, and the home-building industry—will suffer if unjust persecution is conducted against those who did things which were sanctioned by law and done under the pressure of the housing shortage emergency (investigation hearings, September 1954, pp. 1597, 1598).

This statement presents the prevailing views of some builders who have testified before this committee. These builders repeatedly tell us that its prosperity is so essential to the prosperity of the whole country that it must be kept operating full scale at all costs. They seem to feel that the Government must subsidize their industry to whatever extent is necessary to accomplish that objective; although they would never admit that it was a subsidy.

These builders have told the committee that the country just will not get rental housing unless builders are free to make a full fair construction "profit" out of the project's mortgage proceeds and still own the property without any substantial permanent investment. They warn us that in their opinion unless such profits are available from the mortgage money rental housing just will not be built. This means a mortgage in excess of 100 percent of their actual costs. And their practice in some cases seems to be to take this profit only on a basis that permits them to avoid paying normal income taxes on what they call their profit. Builders of this point of view are generally unwilling to invest their own capital, other than to make loans to the project after repayment is assured by a Government-guaranteed mortgage. This is a great disappointment to a committee whose members believe so completely in private enterprise. It is also an unwarranted indictment of those builders who have operated within the spirit and letter of the law and who don't share this view.

The *Mortgage Bankers Association's* views closely parallel those of the Home Builders Association. At the outset of this investigation, William A. Clarke, president of the Mortgage Bankers Association, issued a press release which is in part:

* * * The forced resignation of Guy T. O. Hollyday as Commissioner of the Federal Housing Administration is unwise and unjust. In Mr. Hollyday's resignation, the Administration and the entire country have suffered a great loss * * *.

In our opinion, Mr. Hollyday's resignation has been forced, not because of any indifference to abuses of the FHA system, even though that is the announced reason. We wonder whether the real motive behind this summary firing is the fact that Mr. Hollyday is known to have opposed the administration's plan to transfer from the FHA to the Housing and Home Finance Agency the authority and the responsibility placed by the Congress with FHA. * * *

Mr. Hollyday's summary dismissal will be regretted by everyone who knows him, knows what he stands for, and knows what he has endeavored to accomplish for the Administration. It is a blow to good government and to the cause of enlisting intelligent and honest people in the Government * * * (Housing Act hearings, April 1954, p. 1491).

The mortgage bankers did not wait for the facts and impugned false motives to the President for discharging Hollyday. Yet subsequent disclosures revealed that Hollyday permitted Powell to resign, and personally sent him a laudatory letter, with knowledge of at least some of Powell's inequities.

In the course of its own investigation FHA sent a questionnaire to all section 608 sponsors asking for their construction costs. In June 1954 Samuel E. Neel, general counsel, Mortgage Bankers Association of America, wrote to each member of the association suggesting that he not answer the questionnaire. The letter is printed in the hearings at page 3498.

Although he quotes from the charter of every 608 corporation that—
the corporation shall give specific answers (to FHA) to questions upon which information is desired from time to time relative to the income, assets, * * * and any other information with respect to the corporation or its property which may be requested * * *—

Neel doubted that FHA had the authority to ask for that information.

The letter had its effect on the answers to the FHA questionnaires to section 608 sponsor corporations. A total of 6,438 questionnaires were sent out but only 1,261 were returned completed with the required information.

As in the case of the home builders, the reputable members of the Mortgage Bankers Association are put in the position of protecting those of its members who have been guilty of sharp practices. Why should any honest builder be unwilling to tell his Government the actual cost of his Government-financed project?

CONGRESS WAS MISLED BY THE INDUSTRY

The section 608 multifamily housing program extended over a period of 8 years during which many public hearings were held before this committee on that act. These hearings reveal that Government and housing industry witnesses were unanimous in their praise of this program and concealed from the committee abuses in this program. When witnesses were questioned as to the possibility of unwarranted profits, they promptly assured the committee that there could be no wrongdoing or irregularities in the section 608 program. Unfortunately, the committee and the Congress relied on the integrity, honesty, and judgment of these responsible representatives of the home building and financing industries who testified before this committee.

Rodney M. Lockwood, president of the National Association of Home Builders, testified before the committee on January 17, 1950. Even in 1950, when the knowledge of windfall profits appears to have been widely known in the industry, Lockwood denied that FHA mortgages ever exceed 100 percent of cost. His testimony is in part:

Senator SPARKMAN. * * * We have had fine cooperation under section 608. Yet, isn't it true that under section 608, many times the amount of money that the Federal Government guaranteed, or insured, or stood for, I don't care what term you apply, represented more than a hundred percent?

Mr. Lockwood. I don't know of a single case of that being true. I think that is one of the most widely circulated bits of misinformation that I have heard talked about in housing for a good many years. The impression seems to be that the builder gets in the form of a loan under section 608 more than the total cost of the project. Believe me, in those that I have participated in that has not been true. I have not actually seen or heard of any in which that was true.

Senator SPARKMAN. I don't have it before me, but we had numerous specific cases called to our attention, and I believe I am safe in saying this: That some members of our committee have told us that they had been told by the builders themselves that they had gotten more than 100 percent. If I remember correctly, I won't say it positively, but as I remember it Senator Long said he knew of a case where a builder friend of his had gotten 120 percent.

In all fairness, let me say that I am not condemning the builders.

Mr. Lockwood. If I may be facetious, I would like to say that that statement of 120 percent sounds like barroom talk. I can't believe that the FHA would be that lax in its administration. (Hearing on S. 2246, January, 17, 1950, p. 206.)

This investigation has revealed many cases where the mortgage proceeds have exceeded 120 percent of the costs. In fact, there are cases where the mortgage proceeds were 130 percent and 140 percent of the actual costs. The existence of windfall profits was not just "barroom talk" as this housing expert led the committee to believe. The National Association of Home Builders is still maintaining an ostrichlike attitude.

At the same hearings William A. Clarke, who is now president of the Mortgage Bankers Association, testified before this committee that—

I have had a lot of experience with section 608. I have seen none in our area that in my opinion were in excess of the cost. You hear rumors of those things going on and I presume it has gone on in some spots, but it is like, I presume, any other kind of lending agency does, there are mistakes made that are perfectly sound and honest mistakes. As far as I personally am concerned, we have had our hands in a great many section 608's, and I have never seen any portion of them that I thought was out of the way. I have never seen anybody making any killings under section 608. * * * (Hearing on S. 2246, Jan. 18, 1950, p. 296.)

If Mr. Clarke had had a lot of experience in section 608 projects and had "never seen anybody make a killing under section 608," it would appear either that he had not looked very far or had closed his eyes. Mr. Clarke also is apparently still unconcerned about the widespread abuses under section 608.

COMMENT BY SENATORS FULBRIGHT, ROBERTSON, SPARKMAN, FREAR,
DOUGLAS, AND LEHMAN

While the committee has adopted many of the changes we have suggested in this part of the report, we feel that it still does not make it sufficiently clear that only a relatively few in the industry and in the FHA were guilty of malfeasance, obstruction, or deliberate misrepresentation.

As to the individual industry spokesman, based upon the record, we believe it would be more appropriate to limit the language of the report to questions relating to their judgment and awareness, rather than to raise implications with respect to their honesty and integrity.

PART IV. THE FRAUDS AND FHA MALADMINISTRATION

Other sections of this report deal with specific cases in which FHA improperly administered the Housing Act. Here we point out some of the general abuses of the housing program found by our investigation to have existed.

SECTION A. APPLICATIONS FOR FHA COMMITMENT

The point of beginning for any section 608 commitment was the Application for Mortgage Insurance. We have already discussed the extent to which FHA permitted builders to include untruthful statements in these applications. We now show the extent to which the FHA frauds could not have occurred had honest answers been required to the questions in those applications. The extent to which many builders made no effort to make honest estimates in their applications is shown in the testimony of Herbert DuBois, a Philadelphia lawyer turned builder, who testified that—

The only thing I can say is this: That the standard procedure in our area, where we were building, the standard procedure with the FHA office was that the builders—and I think practically all of them—I can't make that statement under oath that all of them did—but to the best of my knowledge practically all of them filed their application for the maximum amount of mortgage that was permissible under the act. The reason we did that was because we wouldn't have any actually specific way of knowing what to file for and, furthermore, we were told by the FHA office to file for the maximum and then they would issue their commitment for whatever their cost figures showed, and their appraisal figures showed we were entitled to (investigation hearings, July 1954, p. 955).

When asked, "Are you saying, Mr. DuBois, that your application to FHA was not even intended to reflect your own estimate of cost, but was intended merely to be the maximum permitted by statute?" he replied "that is absolutely correct."

Many builders testified that they did not even read the applications, prepared for them by others, before they were filed.

Joseph J. Brunetti, sponsor of a section 608 project in New Jersey with a \$1.2 million windfall, testified that mortgage brokers filled out his applications without consulting him and used their own estimates. When asked if he had ever signed applications in blank, he replied:

I think that if you say that I signed them in blank, it could have been simultaneously, where they were partially filled, and I took it for granted that they were acquainted with the regulations and I signed them and didn't notice them if they were blank or filled out sometimes (investigation hearings September 1954 p. 3039).

Sidney Sarnier, sponsor of another New Jersey project with a \$2.5 million windfall replied, "No, sir," when he was asked if he had filed an application for a loan. Then he continued:

I filed it through a mortgage company, not direct. Here is my understanding of it. I don't know whether you have the same understanding. Certain approved mortgage companies which the FHA recognizes—these companies go out and solicit business and say, "Look, we are connected with a real estate company" or whatever it is. "We will get you a loan." You are a builder and they come

and look for business. "We can get you a loan for so much if you will build such a type of project" (investigation hearings, July 1954, p. 444).

The quoted testimony of Sarnier was taken in executive session and made public by direction of this committee after Sarnier had availed himself of the privilege against self-incrimination when called to testify at a public hearing. Sarnier's testimony would indicate an objective of obtaining a mortgage for as large an amount as possible and building the structure for as small an amount as possible; with but little, if any, relationship between the two. Greater integrity would have accompanied the housing program had builders seeking mortgage commitments been compelled to give *their own best estimate* of their anticipated costs.

The application was a detailed 4-page, legal-size paper, document. On the theory now advanced by FHA it should have been sufficient for the builder merely to have written a letter to FHA advising it of the amount of the mortgage he desired.

In the Parkchester case, involving a windfall of about \$2.5 million and which is now in process of foreclosure, the application for mortgage insurance was filed 2 days after the purchase of the land on which the project was built. The land was located on the outskirts of New Orleans and did not have any peculiar characteristics. The seller was himself an astute lawyer turned builder who had successfully sponsored other section 608 projects. The purchase price, in that arm's length transaction, was \$232,759 and would seem to be the best estimate of the market value of the property. Yet the application to FHA, filed only 2 days after the purchase of the property, estimated its value at \$1,123,000.

The Cafritz application on Parklands Manor valued land at \$20,000 an acre which had been purchased for \$690 an acre. That valuation was more than six times the valuation placed upon the land a few years earlier by the Internal Revenue Service in connection with a gift of the property by Cafritz. And at the time of the gift Cafritz had stated in his gift-tax return that its value was still only \$690 an acre.

Pursuant to the statutory requirement that sponsors show equity equal to 10 percent of the estimated cost, the application had to show the character and extent of the equity to be furnished. In the Shirley-Duke case, which is an example of almost everything done wrong in the section 608 program, the land was shown as a part of the equity to be advanced by the sponsors. The application estimated the value of the land at \$508,220 and stated that equity in that amount was thereby being contributed by the proposed stockholders. Testimony before this committee shows, however, that at the time that application was filed the sponsors had merely an option to purchase the land for \$178,000. Furthermore, a contract between the sponsors and Investors Diversified Services provided that IDS would finance the acquisition of the land for which it would be reimbursed out of the proceeds of the mortgage. Not only was the land paid for out of the mortgage proceeds, but the agreement with IDS to do so was made before the application was filed. The application estimated the value of the land at three times the market price fixed by the sale and was wholly false to the extent that it indicated that any part of the land was being supplied as equity.

The testimony is further that FHA advised these sponsors that their applications did not show sufficient equity contributions. They

therefore amended the applications to include N. J. Sonnenblick as a sponsor and stated that he would contribute several hundred thousand dollars as equity. Sonnenblick testified that this was all without his knowledge or approval.

The estimated cost of the Shirley-Duke project was \$15.3 million. This should have required equity of \$1.5 million. Yet the only equity ever advanced by the sponsors was \$6,000 (and they immediately put themselves on the payroll at \$60,000 a year.)

It is not conceivable that any intelligent FHA employee could or would have issued the Shirley-Duke commitment if the FHA files had contained an application stating the true facts with respect to the proposed financing of that project. Yet FHA has taken the position that the statements in the application were of no concern to it. Ironically these sponsors estimated the cost at a little over \$15 million and FHA made substantially the same estimate. The actual cost, including interest on all construction funds advanced, but not including the profits or fees paid to IDS, was a little over \$10 million.

Although FHA says that it ignored the figures in the applications, these builders and FHA were each off more than 30 percent in this estimate.

The application for Essex House in Indianapolis, by the Warner-Kanter Co., similarly misstated known facts with respect to the land. Correspondence produced at the hearing shows that from its inception those sponsors planned to have outside builders advance the money for the purchase of the land and receive preferred stock for that advance which would be redeemed out of the proceeds of the mortgage. The land was in fact paid for by issuance of preferred stock which was redeemed out of mortgage proceeds, yet the application showed it as an equity contribution. That application also estimated architect's fees very substantially higher than those provided for in an agreement with the architect made before the application was filed. These statements in the application cannot be said to have been made in good faith when the application was filed. In the final agreement FHA officials were apprised of the facts but did not raise any objection and issued the commitment.

These sponsors were also the subject of correspondence between the Attorney General and Bovard (FHA General Counsel) with respect to a contract between the sponsors and the builders not disclosed to FHA, which was substituted for the contract between them filed with FHA for the construction of a section 608 project in St. Louis. The undisclosed contract was for \$100,000 less than the disclosed contract. As previously noted, Bovard advised the Attorney General that criminal action could not be taken.

We are not unmindful of the fact that honest opinions may differ as to the estimated, or the fair market, value of real estate. But it is difficult to understand a valuation 3, 4, and even 5 times or more the purchase price in a recent arms-length transaction between competent businessmen. While FHA valuations were never exactly the same as the builder's estimates, by coincidence they were generally quite close to the estimate of the builder even when that estimate was several times the purchase price.

The misstatement of architects' fees in FHA applications has been widely known for some time. FHA made it known that it would

allow a 5 percent architect's fee in every case no matter what the architect's fee was in fact. Five percent is a normal architect's fee for a normal building. But many FHA projects were of the "garden" type, consisting of a great number of smaller buildings. The Shirley-Duke project includes 200 buildings averaging 11 apartments each. This is similar to the situation in most of the large section 608 projects. The drawings and plans for one building substantially accomplished the drawing of the plans and specifications for all of the buildings in the project. In these circumstances it is understandable that architects would undertake such projects for fees of 1 percent and even one-half of 1 percent. The hearings disclose many cases in which the builder estimated architects' fees at 5 percent although he had previously made a firm contract with an architect at a very substantially lower sum.

These are the principal respects in which builders gave inaccurate or untruthful statements in their FHA applications. On a less frequent basis there are a long list of other misrepresentations made to FHA all *primarily* to meet the statutory requirement that a sponsor furnish 10 percent equity either in property, cash, or services. We think the materiality of the statements contained in these applications is shown by the mere fact that each applicant was careful to make certain that his application met the statutory test for equity capital.

SECTION B. APPRAISALS BY FHA

Liberality, and perhaps laxity, in FHA appraisals is the other side of the coin to misstatements in the sponsors' applications. We can understand how a sponsor might estimate the value of land at several times the price at which he recently purchased that land from a sane and intelligent seller (when no penalty was imposed for doing so), but it is not as easy to understand the FHA appraiser intelligently reaching approximately the same excessive estimate.

Powell testified before this committee in 1949, accompanied by Bovard and Richards, that it was impossible for FHA cost estimates to be as much as 30 percent off. Nevertheless many of them were off by that much and more. Curt C. Mack, Assistant FHA Commissioner in charge of Underwriting from 1943 through 1954, testified at our public hearings. When he was asked if they ever checked the *actual costs* of these projects to determine the accuracy of their estimates he replied:

We tried to. The insuring offices, each director was a member of the chartered corporation. In fact, he was a director, and those reports were sent not only to Washington—I believe they went to the Rental Housing Division—they did not go to the underwriters—but they were placed also in the hands of the director of the insuring office which had jurisdiction over the area in which the property was situated. We used those reports largely for purposes of checking operating expenses and the accuracy of them (investigation hearings, October 1954, p. 3487).

Following that response the following questions were asked Mack, to which he gave these answers:

Question. How did you miss so many times?

Answer. I can't answer that.

Question. Were you aware at the time that you were missing?

Answer. No.

Question. You say you weren't aware?

Answer. Not in all of these cases. These so-called windfalls were a shock to me.

Question. You say you were shocked at the disclosures?

Answer. At the extent of the alleged windfalls.

The evidence received during this investigation warrants the conclusion that in its eagerness to satisfy builders who were interested in sponsoring multiunit housing projects, FHA frequently estimated costs at whatever it thought was necessary to satisfy the demands of those builders.

It does not seem possible that FHA cost estimators could, had they conscientiously discharged their responsibilities, been off 30 to 40 percent in so many cases, as has been disclosed by our investigation. It is natural to assume that in the normal course FHA estimates might be high in some cases and low in other cases. But we find builders who sponsored 10, and even up to 25, projects whose estimates were *always* on the high side, and whose estimates averaged as high as 20 percent above actual costs. This is inconsistent with the premise that in the normal process of estimating that the estimator would be a "little" high in some cases and a "little" low in others.

SECTION C. FHA SALES AND PROMOTION

The Federal Housing Administration apparently considered itself obligated to "sell" the section 608 program. The committee has heard testimony from builders that meetings were called by FHA officials to persuade builders of the great benefits of the section 608 program. Builders were encouraged to inflate their estimates of costs. FHA made it known that an architect's fee of 5 percent would be allowed regardless of what was in fact the architect's fee. Builders were told that these projects could be constructed with little or none of their own money.

A Los Angeles builder, Arthur B. Weber, told the committee that he was invited to an FHA meeting at which the section 608 program was explained and that he was told that he "should wind up the project without having any investment in it." The extent to which the program was "sold" is shown by its success in the New Orleans area where there was a greater amount of defaulted projects than in any other area in the country. L. J. Dumestre, FHA Louisiana State director from July 1, 1947, to July 30, 1954, gave this explanation of the sales program:

First, multifamily housing, as such, is not common to the area. Up until the advent of the section 608 program I would say we had practically no apartment houses in New Orleans that were larger than 20 or 25 units. We were urged, and instructed by the Washington office, to sell the section 608 program to builders, to provide badly needed housing. New Orleans and Louisiana, along with the balance of the country, was critically short of rental and sales-type properties. We got out and we did a good selling job. We did too good a selling job because probably we built a little too much. About 3,800 units of rental housing came on the market in New Orleans within a period, I would say, from 18 months to 2 years, and it was just a little more than we could absorb at one time * * * (investigation hearings, September 1954, p. 2016).

Under date of January 8, 1947, Franklin D. Richards, then Assistant FHA Commissioner, sent a memorandum to the directors of all local field offices urging a planned pattern for selling the section 608 program. Prepared speeches were sent to the directors and a detailed program was included. The field directors were told when and how to call the conferences. They were told who to have speak, what each should say, and how long each speech should take. A detailed

follow-up program was given the field offices. This brochure is similar to those frequently sent out in connection with high-powered public-relations programs. The document is included in the printed hearings of the investigation (p. 3681).

An address by Ward E. Cox, former FHA Assistant Commissioner, before the West Coast Builders Association in December 1952, further illustrates the extent of this sales program. Cox there told the builders some of the many ways in which they could make money on cooperative housing projects with "no risk capital or permanent capital investment" and with a return of all funds that might be required to be advanced to the project "before one spade of earth is turned." Cox's speech was in part:

Upon receipt of the Project Analysis Form and the project mortgage amount * * * the sponsor-builder, of course, sharpens up his pencil and compares his own estimates of costs with FHA's estimate of replacement costs and asks himself, What's in it for me? In the first place, he may own or acquire the land and sell it at a profit to the cooperative or, in the management-type projects, find it advantageous to lease the land for 99 years at a maximum return of 4 percent of FHA's estimate of fair market value. He can obtain a contract to construct on-site improvements to the land and make a profit and where the land is purchased in fee simple by the corporation he may also contract for offsite improvements. He has no risk capital or permanent capital investment in the project. All equity capital is subscribed by the cooperative members. Any front money advanced by him for organization, legal, architectural and other expenses and costs is returned to him or adjusted at initial closing of the loan, if he decides to proceed with the project, and before one spade of earth is turned in construction. Because all occupants of a cooperative project sign up and make required equity payments before construction begins, the builder is not obligated to speculate on sales or occupancy. If the project is a management-type cooperative and the builder is qualified, he may obtain a contract to manage the project following completion.

One apparent result of the overzealous FHA sales program was undue liberality in making estimates and contracts with builders. If the section 608 program would not have worked out satisfactorily under the formulas and provisions established by the Congress, it was the responsibility of FHA to have so advised the Congress. But it was not the function of FHA to revise the statutory limitations according to its own conception of what was required to make the program work according to its measure of success.

SECTION D. LEASEHOLD MORTGAGES

FHA permitted builders to obtain FHA insured mortgages on leasehold estates under circumstances that made doing so very profitable for builders. This practice was used extensively in New York and to some extent other areas, including Washington, D. C. An official of the Chicago FHA office, E. Herbert Bonthron, testified that the only two leasehold mortgages on residential property in Chicago were on FHA section 608 projects.

These ground leases were generally for 99 years at a rental based on 4 percent of FHA's valuation of the property. The building constructed on the property, with an FHA guaranteed mortgage, is necessarily security for the ground rent. A default in the ground rent would require the Government either to cure the default or to purchase the land to protect its guaranty of the mortgage on the building. Its failure to do so would permit the owner of the land, usually the section 608 sponsor, to acquire the building free and clear of its

mortgage. To thus protect itself, FHA took an option to purchase the land at the appraised value—frequently several times the cost of the property. These cases put FHA in the position of having the equity owner of the building occupy a security position in the project that came ahead of the FHA insured mortgage.

Because of the Government's financial interest in making certain that there was no default in the ground rent, a mortgage on the land was, in fact, better secured than the FHA-insured mortgage on the building. Accordingly, insurance companies and banks were willing to make conventional mortgages at 80 percent, and even 90 percent, of the FHA appraised value of land thus leased to a section 608 project. These loans were generally made for long periods of years *without* any personal responsibility of the borrower to repay the loan. These leaseholds were so profitable because of FHA generosity in making those appraisals. It appraised land at as much as 5 and 6 times the promoter's cost. In one case, Beach Haven, land costing less than \$200,000 was appraised at \$1,500,000. In the Glen Oaks Village case the sponsors were able to obtain a mortgage on the land for almost \$1.5 million more than they had paid for the land. In the Rockaway Crest project the owner obtained a mortgage on the land for \$1 million more than he had paid for the land. These lucrative mortgages were possible only because they were secured by leasehold agreements which the Government could not permit to default. No Federal income taxes were paid on those mortgage proceeds on the theory that they were merely loans and not income even though there was no personal obligation to repay the mortgage.

The Woodner project in Washington was built on a leasehold. Woodner has claimed that his building costs were in excess of his FHA mortgage proceeds; but his mortgage on the land was substantially in excess of his cost of the land.

The theoretical justification for permitting leasehold mortgages to be insured by FHA was that it reduced the capital required of a section 608 corporation. In areas where building costs are high, such as New York City, it was urged that the \$8,100 per unit mortgage ceiling would not permit the construction of rental housing if it were necessary for the sponsor-mortgagor corporation to acquire the land. But this claimed justification for leasehold mortgages does not excuse the inflated valuations that permitted builders to make large profits from mortgages on the land. This practice was particularly unfair in cooperative housing projects, under section 213, in which the co-operators did not know that the property they were purchasing included only the building and not the land on which it was built. This is another example of the way FHA interpreted the law to give the maximum benefit to the builders.

SECTION E. COOPERATIVE PROGRAM

Section 213 of the Housing Act provides for FHA insured mortgages on cooperative housing projects sponsored by "nonprofit" corporations or trusts. The committee's investigation of the housing program discloses virtually no instance in which a true cooperative utilized this section of the act. In almost every case the project was built by a promoter for profit utilizing this provision of the statute, with its maximum 95 percent of estimated cost mortgages, because

of its more profitable provisions. This is particularly true of the single family *sales* houses, built under the cooperative housing section of the act, under which promoters not only obtained 95 percent mortgages but also had their construction advances insured by FHA (as distinguished from the conventional sale house program under sec. 203 in which FHA did not insure construction advances.)

The greatest number of "cooperative" multifamily projects constructed under this "nonprofit" section were in the New York area. The plan generally used was for the promoter to acquire land on which the project was to be built and lease that land to the cooperative project for a long term of years. The cooperative apartment owners were generally not aware of the fact that even after paying off the mortgage they would still not own the land. They never will own the land and are required forever to pay the ground rent or lose their building.

As shown in the preceding section these leaseholds were most profitable for the promoter.

The plan also generally called for the promoter to create and control the nonprofit cooperative corporation. That corporation was usually organized by nominees of the promoter. They in turn would enter into a contract with the promoter's construction company for the construction of the project. The same persons sat on both sides of the table in determining the terms and provisions of that construction contract, including the amount that the cooperative corporation must pay the construction company. More important, the contract generally provided that the final payment was to be made to the construction company when the project was approved by the cooperative corporation. The promoters were careful to retain control of the cooperative corporation until after they had approved their own work. Then they would permit the cooperators to elect their own board of directors.

A most unusual use of the nonprofit cooperative section of the act for single family *sales* houses was employed in the Los Angeles area by Ben Weingart and Louis Boyer in projects involving \$62 million of FHA-insured mortgages. Weingart and Boyer promoted Carson Park Mutual Homes and Lakewood Park Mutual Homes as cooperative housing projects. Weingart made arrangements with Investors Diversified Services for the interim financing and thus avoided the necessity for the individuals to advance money to start the project. In return, Investors Diversified Services received roughly half the profits. Nominees of Weingart and Boyer were the incorporators of the so-called nonprofit corporations. Thousands of homes were built and the profits divided between the Weingart and Boyer group and Investors Diversified Services. In the Carson Park project, involving \$32.1 million in FHA mortgages, the Weingart and Boyer group invested \$65,000 and received profits of \$1,417,321, including a profit of \$118,485 on their sale of the land to the sponsoring corporation. For arranging the financing, Investors Diversified Services received profits of \$1,056,981 in addition to normal interest on all of the funds it had advanced.

In the Lakewood Park project, involving \$30.2 million of FHA mortgages, the Weingart-Boyer group and Investors Diversified Services conducted a similarly profitable operation.

The Weingart-Boyer group received commitments from the Long Beach (adjacent to Los Angeles) FHA office for 6,663 units to be

constructed under section 213. The only other section 213 commitment ever issued by that office was a project of 50 units.

The committee heard testimony that the section 213 program was used in Arizona to sell houses without any downpayment on a "for profit" sales program. Hyman Rubenstein testified that a construction company he owned built single family houses which it sold to a nonprofit corporation he controlled for the amount of the FHA mortgage. That mortgage was 95 percent of FHA's estimate of the cost. The nonprofit corporation then sold the houses without any downpayment. Rubenstein testified that these houses were thus sold for approximately \$8,000 with a profit to him of \$1,000 on each house. If FHA's estimates were in line with Rubenstein's actual costs, FHA was allowing him a 17-percent profit in a program in which FHA insured construction advances and virtually insured the builder against loss.

SECTION F. THE \$5 MILLION CEILING

In passing the National Housing Act the Congress included in section 608 a number of limitations on the mortgage insuring authority of FHA. One of these limitations, prior to 1948, was that mortgages could not exceed \$1,800 per room. In 1948 this limitation was changed to \$8,100 a rental unit. The Congress did not intend to raise the ceiling from \$1,800 per room to \$8,100 per room; it had in mind continued construction on something near the average number of rooms per rental unit that had previously prevailed.

FHA and the builders, however, seem to have continuously searched for means to stretch, evade, and get around the congressional restrictions imposed upon them. They did so with respect to this ceiling limitation by projects in which 80 percent, and even 90 percent, of the rental units were one-room efficiencies. In these projects the mortgage averaged close to \$8,000 per room.

Another congressional limitation was that a mortgage could not exceed \$5 million. One of the purposes for this limitation was to spread the benefits of the act among the greatest number of people. To the extent that FHA-insured mortgages aggregated as much as \$25 million, and even more, on one project this was accomplished by separate mortgages of separate mortgagor corporations on different buildings in the project. But having separate mortgages on separate buildings in the same project was wholly in technical compliance with the statute. However, in the cases in which FHA insured more than one mortgage, in amounts aggregating more than \$5 million, on what was basically one building, it was deviating from the statutory purpose expressed by the Congress.

The Claiborne Towers project on Claiborne Avenue in New Orleans, and the Woodner project on 16th Street in Washington, D. C. involved mortgages of more than \$5 million. Most of the units in these 2 projects were 1-room efficiencies which may be classified as luxury apartments and not the middle income type of rental housing the act sought to encourage.

The Claiborne project in New Orleans was built by Shelby Construction Co., whose activities are frequently discussed in other sections of this report. The FHA New Orleans office refused to approve the project. Approval came from Washington in a memo-

randum from Powell to Curt C. Mack, Chief Underwriter, advising that Powell's office had approved revised plans. Eighty-six percent of the units in this project are 1-room efficiencies. The project is on the north side of Claiborne Avenue and extends for a full block from Canal Street to the west. A mortgage of \$4.6 million is on the east half of the building and a mortgage of \$4.6 million is on the west half of the building. The lobby entrance is in the center of the building. There are 6 elevators of which 3 are on either side of the centerline of the building. There are 2 heating units in the building which could be so utilized that each would heat half of the building. The plans were drawn so that a wall could be built through the center of the building to separate the east half from the west half and leave each as a complete building. However, the outer brick wall is only 1 building enclosing what the mortgagors pretend is 2 buildings. The bricks are laid overlapping each other and in order to separate the theoretically two buildings by so much as one-sixteenth of an inch it would be necessary to cut every other brick in half. The main entrance, a large modernistic entrance, straddles the theoretical dividing line for the two projects.

The Woodner project in Washington, D. C. is covered by a mortgage of \$5 million on one-half of the project, and a mortgage of \$4.9 million on the other half of the project. In this case the buildings are actually separated by a distance of 1 inch with a caulking compound packed into the separation. As in the case of the Claiborne Towners project, the interior halls in the Woodner project extend from building to building wholly as though it were one property. Common switchboards serve both sections. There are separate elevators and separate boilers which could be used to operate separately each of the sections if it was desired to do so. But Woodner testified that it would not be economical for different owners to operate each section.

It would never occur to even a trained inspector that either of these projects was composed of two separate buildings unless he were advised of that fact and examined the plans for the theoretical dividing line.

SECTION G. HOTELS UNDER SECTION 608

The rental housing program, to provide living units for returning veterans, was recognized by FHA as not including financial assistance in the construction of hotels. Yet in many instances it was not difficult to induce FHA to permit all or a substantial part of a project to be turned into a hotel. The Warner-Kanter Co. built Essex House in Birmingham, which after completion was converted into what amounts to a hotel. Later Warner-Kanter obtained FHA approval to construct an Essex House in Indianapolis; 93 percent of the 390 units in that project consist of 1 room. Shortly after completion of the building the sponsors told FHA that their inability to rent that project made it necessary that they furnish some of the apartments and later to provide maid service. FHA approved furnishing 150 of these units and providing maid service. There are many similar projects throughout the United States.

The Woodner project in Washington is perhaps the most glaring example of the use of section 608 for a hotel property. The record supports the conclusion that its sponsors intended to operate the property as a hotel from the inception of the project.

The plans called for stores, shops, and restaurants on the ground floor although the District of Columbia zoning ordinances prohibit such commercial use of property in that area except in hotels. The record contains a letter dated December 20, 1949, from A. A. Bliss of the legal division of Irving Trust Co., New York, the mortgagee, to the Woodner Co., written less than 2 months after the FHA commitment was issued and prior to the construction of the project, that is in part:

As I understand it, you will apply for a hotel permit when the project is ready for occupancy, and the commercial space will not be utilized unless the hotel permit is issued.

When the project was completed the District of Columbia refused to grant an occupancy permit unless 40 percent of the rooms were converted to a hotel. Woodner asked the local FHA office in Washington for permission to do so, pointing out that he had invested \$700,000 in the construction and furnishing of commercial facilities which could only be utilized, under the local zoning ordinance, in a hotel. The District FHA director for Washington refused to grant this permission and in June 1952 the matter was taken for review before the national FHA office. Franklin D. Richards was then FHA Commissioner and the matter was brought to his attention in June, although no decision was then reached. Richards resigned as FHA Commissioner effective June 30. On July 22, he was retained by Woodner in connection with this request to operate the project as a hotel. Richards was to be paid a retainer of \$5,000 and an additional \$5,000 if they were successful in obtaining hotel approval. Powell reversed the local office and granted Woodner permission to convert 238 units into a hotel.

The incidents of using section 608 properties for hotel purposes, exceeding the statutory \$5 million ceiling, and permitting a substantial majority of the units in a project to be 1-room efficiencies are not in themselves of any great importance except that they further illustrate the extent to which FHA sought to extend, circumvent, and evade the congressional purposes of the National Housing Act. On the contrary, it should have been FHA's purpose to use every effort to carry out the intended will of the Congress.

SECTION H. DISREGARD OF WAGE-RATE REQUIREMENTS

In 1939 Congress adopted an amendment to the National Housing Act to insure that builders who obtained the benefits of that program would pay the prevailing local minimum wages, as certified by the Secretary of Labor. Section 212 of the act expressly provides that the FHA Commissioner shall not approve any application for mortgage insurance under that act unless the contractor files a certificate that the laborers employed in the construction have been paid not less than the prevailing local wage rates, as determined by the Secretary of Labor prior to the beginning of construction. The act also authorized the Commissioner to make such rules as may be necessary to carry out the provisions of this section.

FHA construed the act as requiring merely that the contractor furnish it with a certificate of the payment of prevailing wage rates. It considered the filing of such a certificate conclusive, refused to be con-

cerned with charges of substandard wage payments, and would not look beyond an appropriately executed certificate. The Department of Labor investigated thousands of cases of alleged violations of this provision of the Housing Act. It referred many such cases to FHA. Prior to 1950 FHA refused to take any action in these matters. Beginning in 1950 it did carry on some investigative work on projects referred to it by the Department of Labor. In the period 1939 through 1952 only two such cases were referred by FHA to the Department of Justice. The testimony of Deputy Housing and Home Finance Agency Administrator McKenna is that a spot check of FHA files disclosed 95 projects in which construction workers were underpaid \$1,023,000. A common practice of contractors was said by him to be to classify skilled workmen as apprentices and to pay them at the lower wage rates.

One project, McKenna testified, 80 carpenters, whose experience averaged 8 to 10 years were classified on the payroll as apprentices and paid from \$0.75 to \$1.37 an hour while the wage rate for carpenters was \$1.65 an hour. On another project of the same contractor 83 experienced carpenters were found on the payroll as apprentices. The divergence in wage payments was similar to those in the first project. On a third project of that contractor 152 experienced carpenters were designated as laborers and paid \$0.75 to \$1.25 an hour while the prevailing carpenter's rate in that area was \$1.37½ an hour.

The testimony shows that in 1 case in which there were wage violations amounting to \$25,947 the FHA mortgage commitment was increased \$29,100. In another case in which there were wage violations of \$8,267 the commitment was increased \$8,200. This paternalism toward builders subjected the workers on the projects to severe monetary penalties.

FHA had no procedure for barring contractors found guilty of wage violations in one project from participating in other projects, or even for subjecting their subsequent projects to special scrutiny.

PART V. ECONOMIC IMPACT ON TENANTS

The excessive and unreasonable "windfall profits" achieved by builders under the section 608 program is necessarily either at the expense of the tenants renting apartments in such projects or at the expense of FHA (and the Government as guarantor of the obligations of FHA). To date the Government has sustained no actual loss on these properties. The losses accrued on properties that have defaulted and have been acquired by the FHA have been, or will be, met by reserves of \$105.2 million which FHA has set aside from insurance premium receipts. Tenants, however, have been required to pay large sums in extra rent to "bail out" properties encumbered by mortgages substantially in excess of actual costs.

For every hundred million dollars that FHA-insured mortgages exceed 90 percent of what would have been the estimated costs had FHA estimates been based on "the actual costs of efficient building operations," tenants may be required to pay \$6.5 million in excessive rents each year during the 30 years of the mortgage. Only competitive conditions in the rental housing field making available alternate accommodations at lower rents will relieve those tenants of this obligation.

The charter of each section 608 corporation permits FHA to approve maximum rentals. FHA rentals were determined, in advance of construction, by the FHA "project analysis" which was the basis of the FHA commitment to insure the mortgage. These rentals were based upon the *lower* of: (a) What was then the market rental being paid for comparable accommodations; or (b) rentals which would provide a return of all operating expenses (including interest and amortization) and a 6½ percent *net return on the estimated cost of construction*, after an allowance of 7 percent for vacancies and for other loss of rental income. In actual practice the yardstick for measuring such rents was the 6½ percent net return on the estimated cost of the property. It was actually in excess of 6½ percent of the estimated cost due to the 7 percent vacancy allowance and the fact that most section 608 projects had almost no actual vacancies.

When the actual costs were substantially less than FHA's estimate of costs, the rents were nevertheless based on a 6½ percent net return on the original FHA estimate. And the rents were not based on the amount of the mortgage (90 percent of the estimated costs), but on the full amount of the FHA estimate of costs. Furthermore, if operating expenses, taxes, or other recurring items of expense were increased to a level beyond those used in the original FHA estimate, the sponsor could file an application for an increase in rents, which was generally allowed and the rents charged to tenants were further inflated, even though there had already been an excessive rent initially established.

The Shirley-Duke project was estimated to cost \$15.3 million. The actual cost of the project was \$10.8 million, excluding the \$900,000 promoters' fee paid Investors Diversified Services, or \$11.7 million if that fee is included as item of cost. The rental schedule, approved

prior to the construction of the project, permitted the sponsors to charge tenants \$250,000 to \$325,000 a year in excess of what would have been the rents had the actual, instead of estimated, costs been used. This is in excess of \$115 per apartment per year in additional rent. Nevertheless, not long after completion of the project, FHA approved a rent increase, based on increased operating costs, of \$89,994 a year.

In the Glen Oaks case, in which there was a \$4.6 million "windfall" on the FHA-insured mortgage on the building and a \$1.4 million "windfall" on the mortgage on the land, FHA subsequently granted increased rentals, based on increased operating costs, of \$231,681 annually.

The table following shows section 608 projects on which "windfalls" were shown at the public hearings of this committee and in which FHA has permitted tenants to be charged increased rentals based on higher operating costs.

Rental increases on windfall projects (public hearings only)

Sponsor and projects	Project location	Windfall	Number of rooms	Annual rental increase
Joseph J. Brunetti:				
Richfield Village (8 sections).....	Clifton, N. J.....	\$135,718	4,064	\$52,153
Brookchester (10 sections).....	New Milford, N. J.....	1,071,175	5,506	233,664
Wright Village.....	Lodi, N. J.....	144,458	2,056	34,541
Maybrook Gardens (6 sections).....	Maywood, N. J.....	9,696	1,343	29,704
Rutherford Park Apartments.....	Rutherford, N. J.....	43,129	516	4,768
Total.....		1,404,175	12,485	354,830
Alfred Gross, Lawrence Morton, George M. Gross: Glen Oaks (11 sections).	Bellerose, Long Island, N. Y.	3,600,000	12,346	231,681
B. Gordon, Jr., E. J. Preston, H. W. Hutman: Shirley-Duke (6 sections).	Alexandria, Va....	2,119,353	7,928	89,994
Ian Woodner, Max Woodner, Beverly Woodner:				
Crestwood Lake Apartments, No. 1..	Yonkers, N. Y....	79,392	1,064	9,321
Manor Park Apartments (2 sections)..	Wilmington, Del..	10,283	1,534	38,712
Columbia Heights, No. 4.....	Arlington, Va.....	77,294	1,314	62,136
Total.....		166,969	3,912	110,169
Davis A. Finkelstein, Herman D. Paul, Harry A. Rosenfeld: University Hills.	Prince Georges County, Md.	478,861	1,314	62,136
Ben Cohen: Penn Manor (4 sections)....	Pennsauken, N. J.	135,000	1,326	44,514
Morty Wolosoff: Alley Pond Park (2 sections).	Bayside, N. Y....	475,577	928	58,500
James J. Keelty: Rogers-Forge Apartments (2 sections).	Baltimore, Md....	834,596	2,082	40,973
Thomas J. O'Brien: Meadowbrook Corp.	Indianapolis, Ind.	36,604	2,675	46,129
Herbert Du Bois:				
Clover Hills Gardens.....	Mount Holly, N. J.	280,000	794	17,152
Parkway Apartments.....	Haddonfield, N. J.	250,000	1,591	43,339
Total.....		530,000	2,385	60,491
Saul Silberman: Uplands Apartments.....	Baltimore, Md....	552,000	2,007	14,450
Samuel J. Rodman: Atlantic Gardens, No. 1.	Southeast Washington, D. C.	95,000	163	1,643
Dewey Gottlieb: District Heights (4 sections).	District Heights, Md.	1,296,900	2,280	55,685
Bernard Weinberg:				
Pleasantville Manor.....	Pleasantville, N. J.	228,000	968	19,515
Barrington Manor.....	Barrington, N. J.	482,967	1,350	34,992
Total.....		710,967	2,318	54,507

Rental increases on windfall projects (public hearings only)—Continued

Sponsor and projects	Project location	Windfall	Number of rooms	Annual rental increase
Fred Schneider: Parkchester Court (4 sections).....	Southeast Wash- ington, D. C.	120,000	1,100	16,719
Rhode Island, Inc.....	Northeast Wash- ington, D. C.	270,000	1,284	25,423
Total.....		390,000	2,384	42,142
Charles Rose: Jefferson Village (10 sections).	Falls Church, Va	281,435	2,794	37,240
Herbert Glassman: Glassmanor (3 sec- tions).	Prince Georges County, Md.	251,102	3,485	15,308
William S. Banks: University City.....	do.....	195,574	1,516	22,677
Albert Stark: Drum Castle Apartments.....	Baltimore Coun- ty, Md.	202,189	1,202	15,434
Seton Heights.....	Baltimore, Md....	2,716	900	11,988
Total.....		204,805	2,102	27,422
Alexander Muss: Sunset Gardens.....	Nutley, N. J.....		323	4,380
Boulevard Gardens.....	Bayonne, N. J.....	138,142	854	43,544
Total.....		138,142	1,177	47,934
Israel Orlian: Floral Park, Inc.....	North Bergen, N. J.	148,089	1,092	20,049
Benjamin Nelsloss: Brookside Gardens..	Somerville, N. J..	525,616	1,663	62,462

Prior to December 17, 1947, rental housing projects having insured mortgages of \$200,000 or less were not subject to rent controls by FHA. Projects in excess of \$200,000 prior to that date, and all projects since that date, have been subject to this control over rents. This authority to control rents remains effective so long as the FHA-insured mortgage is in effect.

As long as a shortage of rental housing exists, tenants will have little choice but to pay these higher rents that are due to excessive cost estimates. It is difficult to estimate the amount of such excessive rents that are now being paid by tenants except that it is a very substantial sum annually. It is not feasible for the FHA Commissioner to reduce those rents (assuming he has the authority so to do) as long as the inflated mortgages remain unpaid. For the Commissioner to reduce rents below the levels required for interest and amortization on the inflated mortgages would only precipitate a default in the mortgage and require the Government to issue its bonds for the mortgage indebtedness, and to take over the property. If FHA is successful in its current action to recover windfall profits, we assume that such recovery will be applied to reduce the mortgage indebtedness and thereby reduce the necessary rents required from tenants to carry the property.

Unless the carrying charges of such mortgages can be reduced, tenants would appear to have no relief from these excessive rentals until comparable housing becomes available in projects which do not require excessive income to cover carrying charges on excessive mortgages. If and when that day comes, the owners of projects on which there are excessive mortgages will either be required to reduce their rents or will find their apartments vacant. In either event, it is not unlikely that projects with excessive mortgages will then default

and that the FHA will be required to take over the properties. Unfortunately it seems that in every case either the tenants or the Government will sustain a loss resulting from these excessive mortgages.

The chart on the opposite page reflects the rentals authorized to be charged, by States, in section 608 projects. The lowest rentals were in Mississippi and the highest in Illinois. Only 10 percent of the project rentals were below \$60 a month and more than 60 percent were above \$80. More than 20 percent of these projects rented for more than \$100 per month per apartment and in Arizona, Nevada, and Illinois the median rental of all section 608 projects in those States exceeded \$100 per month per apartment. The median monthly rent for the country is \$86.41.

COMMENT BY SENATORS FULBRIGHT, ROBERTSON, SPARKMAN, FREAR,
DOUGLAS, AND LEHMAN

It is obvious that "mortgaging out" plus the fact that rent schedules generally were based on the FHA estimate of cost rather than on actual cost have resulted in higher rentals in some projects than might otherwise be the case.

To complete this picture of the 608 program we should point out its merits. It has provided for construction of 465,683 housing units in 7,045 projects to meet the housing needs of war workers and returning veterans. The number of these projects found by the committee to have mortgages in excess of costs is about 6.7 percent. Out of about half a million units in the 608 program, there is no evidence to show that the great proportion carried higher than necessary rentals because of mortgaging out.

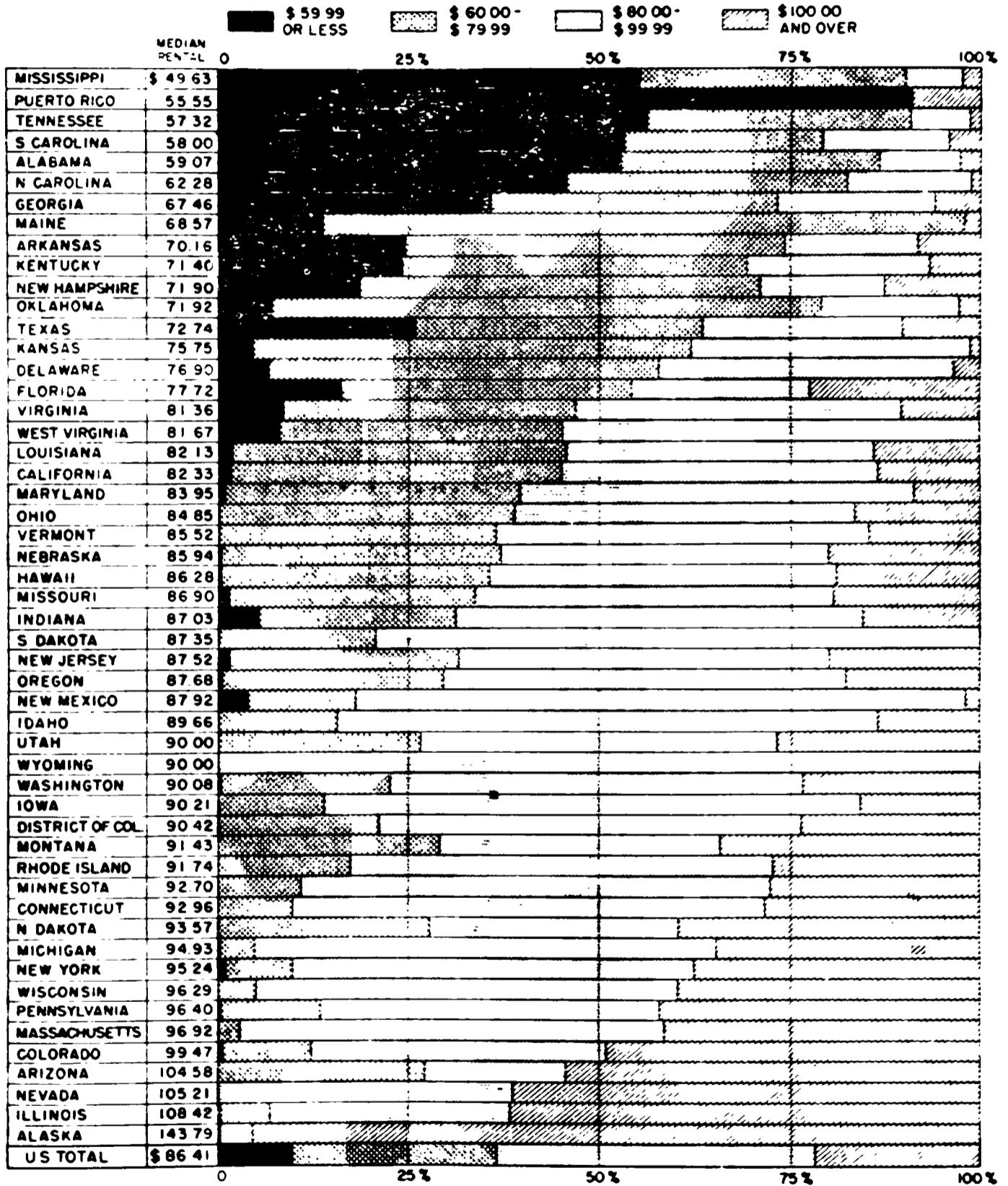
The impact of the approximate half million units built under the 608 program must have had considerable competitive effect upon rent levels generally. In all likelihood the mass effect of the units developed under the 608 program reduced rents far more than rents were increased as a result of mortgaging out.

STATEMENT BY SENATOR CAPEHART

It is inaccurate to state that the projects found by the committee to have mortgages in excess of cost is 6.7 percent. The public hearings inquired into 543 projects of which 80.5 percent were shown to have mortgages in excess of costs. Not more than an additional 200 projects were investigated. Of projects called to the committee's attention, inquiry was made only in those cases where a sponsor's total mortgage exceeded his total cost. No inquiry at all was made by the committee into the remaining 6,300 projects because we had neither the time nor the staff. We just do not know how many of these 6,300 projects had mortgages in excess of costs.

PROJECT MORTGAGES WITH INSURANCE IN FORCE UNDER SECTION 608

PERCENTAGE DISTRIBUTION OF MONTHLY RENTAL AS REPORTED FOR OCCUPANCY SURVEY OF MARCH 31, 1954



PART VI. THE HOME REPAIR IMPROVEMENT PROGRAM

Title I of the National Housing Act, as adopted in 1934, authorized FHA to insure obligations of homeowners for repairs to, or modernization of, their homes. The program was designed to stimulate business in the home repair and modernization field and to permit needed repairs of homes whose owners might otherwise be unable to finance the work.

The program was one of guaranteeing the financing of these repairs. It was unrelated to protecting homeowners against the fraudulent schemes and practices subsequently worked upon them. Similarly the program was not intended to include any safeguards to insure adequate work or fair prices.

FHA was authorized to approve lending institutions as "approved" mortgagees. The only direct contract by FHA was with these approved lending institutions. The approved mortgagees were permitted to approve "dealers" whose notes they might discount under the FHA program. The lending institutions were required to use sound banking judgment and practices in selecting these dealers. Unfortunately the record shows that many lending institutions were extremely careless and negligent in the selection of dealers. This resulted in a number of dealers operating under the program whose practices were fraudulent and who, with their disreputable salesmen, "fleeced" thousands of homeowners out of hundreds of millions of dollars.

FHA did not approve the dealers, but it adopted the practice of putting dealers on a "precautionary" list whenever it found their practices improper. Placing a dealer on the precautionary list had the effect of cutting off his credit. But FHA was extremely reluctant to take such action and it did so in only the most flagrant cases and after countless homeowners had been defrauded.

The frauds and rackets worked under this program reached large-scale proportions shortly after World War II. They continued unabated until the last year, during which the extent of these frauds and rackets has been materially reduced. The decrease in the volume of these frauds results largely from the publicity given to the program which has made homeowners more aware of the practices of these fraudulent salesmen and also from a tightening of the regulations by FHA following the disclosures by the President last April of these frauds.

Many home-repair dealers used "FHA" and "Federal Housing Administration" in their advertising and sales promotion work to give the impression to inarticulate people that somehow the Federal Government was back of the work. Many homeowners purchased such work in the belief that the Federal Government, through the instrumentality of FHA, would somehow see to it that the work was properly performed and that the charge was fair and reasonable. It is unfortunate that a program, designed merely to finance paper

taken by dealers for such work, should be sold to the homeowners as protecting them in the character of the work they received.

Under this program any dealer, able to make arrangements with a lending institution to discount his paper, could contract with homeowners for such repairs. On completion of the work the homeowners sign a "completion certificate." Many disreputable dealers obtained this certificate, signed in blank, at the time the initial contract was signed. In other cases signing of the certificates was induced by false and even fraudulent misrepresentations as to its character. Upon presenting that certificate to the bank the dealer obtained 100 percent of the obligation provided for by the contract. The bank became the owner of the paper and there was no recourse against the dealer.

These obligations were negotiable instruments as to which the bank became a holder in due course. Under the law of negotiable instruments the homeowner was required to pay the bank the amount of this obligation in spite of any fraud practiced upon him (except when his signature was forged to the note). The obligation of the bank was insured by FHA against losses up to 10 percent of the aggregate amount of the loans, which in effect permitted almost every bank to enjoy a 100-percent Government guaranty.¹

Whenever a homeowner defaulted in the payment of his obligation, and the bank was unable to collect the note, the obligation was assigned by the bank to the Government. FHA was required to pay the bank the amount of the debt which it then referred to the United States attorney for collection. In countless cases the United States attorney has, in the name of the United States of America, either filed suit, or threatened to file suit, against homeowners for obligations they incurred as a result of fraudulent practices by which they were victimized. In thousands of cases the work represented by these obligations was virtually worthless.

A principal cause of the home-repair frauds was: first, laxity by lending institutions in approving dealers of questionable character; secondly, their continuing to do business with dealers after notice of their fraudulent practices; and, third, their accepting the paper of homeowners whose credit would never have sustained a normal banking transaction. Testimony heard by the committee included cases in which the same person had received 4 and 5 home-repair loans. Frequently the later loans were made after the borrower had defaulted on the first loan. Lending institutions should justly be criticized for their laxity and negligence. FHA is also subject to criticism for permitting these lending institutions to be so lax and negligent.

The Government has sustained no monetary loss in the title I program and it appears that existing FHA reserves are adequate to cover such contingent losses as may ultimately accrue against FHA under this program. Substantial losses in the home-repair program have been sustained by homeowners who were victimized by unscrupulous salesmen and dealers. By handling FHA papers, and because of misrepresentation by salesman and dealers, many of these victims thought that they would receive Government protection through FHA supervision.

¹ In 1954 the Congress amended the statute to require the lending institutions to assume 10 percent of the loss on each individual loan.

In the 20 years the program has been effective, FHA has insured 17 million home-repair or improvement loans in the total amount of \$8 billion.

The frauds in this program were not confined to any geographic area. In every city in which the committee held hearings we discovered a large number of title I frauds. Perhaps the greatest number occurred in California where climatic and living conditions were peculiarly adapted to the fraudulent practices in the sale of patios, barbecue pits, and similar improvements. Representatives of better business bureaus were called to testify in several cities. In each instance they testified that their offices had received many complaints regarding title I fraud. The evidence also showed that they had done a good job in attempting to correct these abuses.

The committee heard 118 witnesses testify on the title I program—approximately one-third the total number of witnesses heard. Sixty-three of those witnesses were homeowners who had been victims of these fraudulent practices. Others were FHA representatives, better business bureau officials, a representative group of the dealers and salesmen responsible for these frauds, and officials of lending institutions accepting the notes of those dealers.

In each city where hearings were held there was virtually an unlimited number of homeowners anxious to testify to the frauds by which they had been victimized. Twenty-two dealers or their salesmen were heard whose testimony, recognizing the unwillingness of the unscrupulous to admit their misdeeds, gives a representative indication of the manner in which these frauds were practiced. Three of those witnesses availed themselves of the constitutional privilege against self-incrimination.

The hearings revealed that many of the dealers and salesmen who victimized the public were men with known criminal records and other unsatisfactory backgrounds. The tactics employed by those men embodied the elements generally employed by professional criminal confidence men.

Many of the pitches, approaches or gimmicks employed to induce the homeowner to purchase from such dealers and salesmen were no more than the ageless appeal to human nature to get something for nothing. The sales techniques used by such individuals were as many and varied as their imagination and knowledge of human nature could devise.

The "model home" or "bonus" pitch, as it was referred to in the trade, was used most frequently. The homeowner was told that the salesman had made a survey of the neighborhood and had chosen his home as a model home. The stated reason for selecting this particular home was generally because the homeowner had such an attractive yard, or the shape or size of the particular home, or any other features which the salesman chose to use to justify the selection. This was merely the entree. Every home in the neighborhood that might need repairs was a so-called model home. To continue the pitch, the salesmen would promise the homeowner to send prospective customers to see the job purchased by the homeowner, whether it be siding, roofing, patio or any one of the other numerous improvements. For each such prospect who purchased a similar job this homeowner would receive a commission or bonus of \$25 or \$50 or \$100. The amount actually promised was immaterial since the written contract signed by the homeowner

made no mention of such oral promises. The salesmen would continue the pitch by assuring the homeowner that in reality his improvement would cost him nothing. The homeowner was told that he would assuredly pay for his own job and probably earn some extra money on the commissions or bonuses. When these pitches were used the contract price was uniformly excessive although the homeowner was generally told the price was the company's cost because this was a model home. Sometimes the price paid would actually run 2 or 2½ times what the homeowner would have paid for the job if done by a reputable local dealer or contractor.

Rarely was any money ever paid a homeowner as a result of the bonus promise made in conjunction with the model-home pitch. Even when homeowners actually sold jobs to their own friends or relatives they usually did not receive the commission.

The dealers and salesmen who made a racket of the home-improvement program were for the most part fly-by-night or "Johnny-come-lately" operators. Their methods of operation are not to be attributed to the multitude of small local contractors, residents of their communities, who sold home improvements of quality materials and workmanship at fair prices under FHA loans. The unscrupulous dealers are distinguishable chiefly by their business practices.

The testimony of a group of dealers and salesmen heard at the Chicago, Indianapolis, and Detroit hearings particularly emphasizes these fraudulent practices.

Harry Cane, brother of Mickey Cohen, notorious west coast figure, and himself a man of considerable accomplishment in undesirable activities, entered the FHA home-improvement field as a salesman about 1941. In 1948 he organized a group of high-pressure-type salesmen under the firm name of Cane Enterprises & Associates. Many of these so-called "salesmen" had known criminal records. This group, and others like them, were quite aptly termed "dynamiters." From 1948 until the arrest of about 10 of the group in Houston, Tex., during 1951, Cane utilized that selling organization in the home-improvement field in various sections of the country.

Cane operated on the "par system" for compensating salesmen. His peculiar technique of operation was to move into an area where a local dealer had arranged to distribute a product lending itself to this type of operation, most frequently siding, and to arrange with that dealer to sell the entire lot even before the wholesaler's invoice for the product became due. They could and did "dynamite" a particular area in a short time.

The "par" system was particularly adapted to encourage these frauds. The dealer would fix a price as "par" to the salesman. The salesman was free to sell the job at any price, above "par," he chose. The difference between "par" and the sales price was the salesman's commission. Most of the disreputable title I dealers subcontracted the actual work to contractors and were themselves merely brokers. It was not unusual to hear testimony of a job costing \$300 from the contractor doing the work being listed at a "par" of \$500 by the dealer and being sold by the salesman to a homeowner at \$800 to \$1,000. In many cases the salesman "bribed" the homeowner by giving him as much as \$200 in currency to sign the contract and then adding that amount to the so-called sales price.

Harry Nassan was another Chicago dealer operating on a grand scale, with a prior criminal record involving use of the mails to defraud. He entered the business in 1946 as the owner of Atlas Construction Co. Better business bureau and FHA files indicate a number of complaints against his operations. One of his salesmen, or "brokers" as he liked to call them, was *Richard Vidaver* who twice before this committee availed himself of the constitutional privilege against self-incrimination when questioned about his title I home-repair activities.

Jerome Brett was still another dealer witness, the subject of a long history of complaints to FHA, who from 1941 through 1952 was president of the Pioneer Home Improvement Co. in New Jersey. Homeowners testified before this committee as to the various abuses practiced upon them in connection with contracts of this company. Brett's Pioneer Home Improvement Co. went bankrupt in 1952 and Brett himself testified that the cause of this bankruptcy was the large number of complaints against his company in connection with his company's sale of a defective paint product under FHA loans.

Jack Wolfe, another possessor of a criminal record, during 1951 and 1952 organized or held an interest in no less than five different home-improvement concerns in the Des Moines, Iowa, area. His testimony emphasized the "fly-by-night" nature of the operations of many of these dealers in that all five of these concerns opened their doors and then went out of business in a matter of months or perhaps at most a little more than a year. Wolfe admitted that many of his salesmen were of the unscrupulous or unethical group when he testified, in effect, that when he tried to operate in a legitimate manner his salesmen left him for greener pastures.

Louis Garthson, onetime president of a concern known as Protexawall and an associate in Permawall, Inc., might be termed typical of the high-pressure-type salesmen who entered the home-improvement field. In 1951, while associated with Permawall, Garthson admittedly prepared the material or syllabus which was used by a "school" conducted for training salesmen in the dynamiting type of high-pressure selling. The chart opposite page 484 of the hearings is an example of the material used at that school. Garthson admitted that he had previously been employed by an appliance store using the well-known and publicized "bait" type of selling and advertising.

Lew Farrell of Des Moines, Iowa, whose real name is Luigi Fratto, became a beer distributor in Des Moines beginning about 1938. Long rumored to have underworld and gambling connections, Farrell would admit only that he was connected with several home-improvement concerns. He denied knowing who were the owners and could not recall either who paid him or who worked for the firm. When asked what his duties were he replied that he just did not do very much.

Floren Di Paglia, who at the time of his appearance before the committee as a witness was under conviction for bribing a Drake University basketball star, became active in the sale of aluminum siding under FHA title I loans beginning in 1949. He started his business in 1951. Di Paglia testified that his best business year in the sale of FHA-insured home improvements was the year 1951-52 when he made approximately \$100,000.

Jack Chisik first entered the title I home-repair business in 1938, operating in the Detroit area. He was typical of the most undesirable

type of high-pressure salesmen. In 1952 the Michigan Corporation and Securities Commission suspended his contractor's license as a result of unscrupulous sales practices. Chisik had been associated with at least six concerns doing business in FHA-insured home repairs and improvements.

The Michigan Corporation and Securities Commission and the California Contractors License Board each suspended the licenses of a number of unscrupulous title I dealers in their respective States. These State agencies should not have been required to police an FHA program; and a more vigilant watch over the program should have resulted in FHA eliminating those dealers long before the State agencies were compelled to suspend their licenses. FHA officials in California in charge of the title I program testified that it was necessary to obtain concurrence from Washington before they could suspend the operations of a title I dealer and that it was generally difficult to get approval for such action.

Cozy Homes, Inc., was engaged in the home-repair business under title I of the Housing Act in Detroit. During the committee's hearings in that city we took possession of the books of this company and examined their transactions during a 14-month period. During that time gross sales of the company were \$205,533 and the so-called salesmen received \$101,017 as commissions. This company operated on a "par" basis and left the salesmen free to fix their own sales prices. The company's "par" was apparently \$104,516 on those sales and the salesmen's commissions an almost equal amount. The salesmen received 49 percent of the total sales price, and their commissions added 97 percent to the "par" basis amount which the homeowner was required to pay.

Enterprise Construction Co. was shown by the California testimony to have done the largest volume of business in that State in home-repair contracts under which homeowners were victimized. As its business grew many of its salesmen and supervisors left Enterprise to go into business for themselves. Enterprise was considered the training ground for this work and a substantial portion of those engaged in the business in California were looked upon as "alumni" of Enterprise.

The testimony showed that products such as roofing, siding, and exterior painting were most commonly involved in victimizing the public. The various sales "pitches" such as the "model home pitch" were usually accompanied by extravagant and outrageous claims by the salesman as to the quality or longevity of the product. Product failure to live up to the salesmen's claims was further aggravated by shoddy workmanship.

Many dealers who were represented to the public by their salesmen as contractors with an organization and the know-how to do the job, did not, in fact, employ regular workmen, had no particular know-how, and were, in fact nothing but "fly by night" operators set up to sell a questionable product for a short time and then to move on to exploit a new community. It was common for such dealers, particularly in the field of siding, to employ groups of itinerant "applicators" to perform the work of applying the product. Standards of workmanship were understandably low in such cases. After the dealer had obtained his money from the lending institution, complaints by the homeowner to remedy defective work were most often ignored.

The abuses practiced on the homeowners were fostered by the trade practices commonly engaged in by the unscrupulous dealers in dealing with the unscrupulous salesmen. Most of such dealer witnesses heard by this committee insisted that the salesmen were not their employees, but were "independent contractors." Commonly such dealers would permit virtually anyone, without regard to qualifications or past criminal records, to solicit contracts from homeowners. The dealer supplied the "contractor," or "canvassers" and "closers" as they refer to themselves, with blank FHA title I applications, blank promissory notes, blank completion certificates, and credit report forms. The arrangements comprehended that the salesman would obtain the contract and all the loan papers required to be signed by the homeowner. He then delivered the papers to the dealer and was paid his commission on the price for which the job was sold.

Under the previously liberal rules of FHA, title I loans could be obtained to finance such "improvements" as patios and barbeque pits. The sharp title I operators took full advantage of these liberal rules to exploit the California market for patios and barbeque pits by using variations of the "model home" pitch. It is doubtful that the title I program was ever intended to encompass such things as patios, which most of the public would consider luxuries.

One of the serious consequences of the sales practices engaged in by the home-improvement racketeers imposed a direct burden on the Government. Many victimized homeowners who had purchased home improvements they could not afford on the belief that they could pay for the work out of the "bonuses" they would receive from the use of their home as a "model" were later forced to default on their loans. Others realizing that they had been duped, angrily refused to pay. In many such instances, the lending institutions involved, who oftentimes contributed to the situation by accepting contracts from known sharp dealers, were covered on the defaults by the FHA insurance. In such cases, the Government was required to take over and attempt to collect the loans by direct suit against the homeowners. Witnesses have testified that United States attorneys over the country are today burdened by thousands of such suits.

In Detroit title I home-improvement loans were obtained and the proceeds used for such purposes as the payment of a property settlement on divorce, vacations, the purchases of cars, television sets, and so forth. These cases involved a fraudulent representation by the homeowner in making an application for a loan that the money was to be used for a home improvement. Many of the people involved in these loans were induced to obtain the loans by people who had been or were racketeering dealers in title I home improvements. The promoters of those loans generally obtained a "cut" out of the proceeds of the fraudulent loans thus obtained by the homeowner. It is demonstrable that such schemes could not have flourished if the banks and lending institutions involved had exercised discretion similar to, if not as strict as, that they exercise in granting loans of their own non-Government-insured money.

Title I was intended to make bank credit more readily available to small-home owners for needed repairs, but it was not intended to attract racketeering or to foster deplorable business practice by financial organizations. Detroit, Chicago, and Indianapolis testimony showed that in some situations, where completely fraudulent FHA

title I loans were made, employees of lending institutions received bribes, payoffs, or gratuities for granting such loans. One Chicago witness, claiming personal knowledge of the unscrupulous dealer and salesman practices in this field, stated that racketeering could not have flourished so widely had not these dealers had a "clout"—underworld term for "connection"—in the banks to accept their contracts in the face of public complaints of sales fraud, product misrepresentation, and unsatisfactory reputations.

There are countless homeowners, victimized under this program, who ultimately paid their obligation for work they did not receive when assured that they had no legal defense to the obligation. In some cases witnesses testified that their property was in worse condition following the work supposedly done by the dealer than if no work had been done at all. Even in most of those cases honest homeowners paid their obligation when they learned that a legal liability had fraudulently been cast upon them.

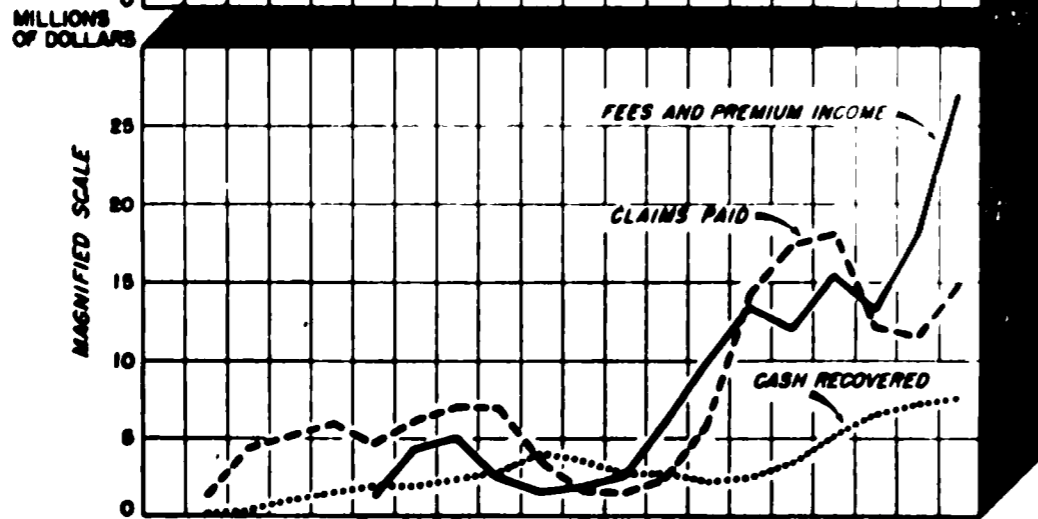
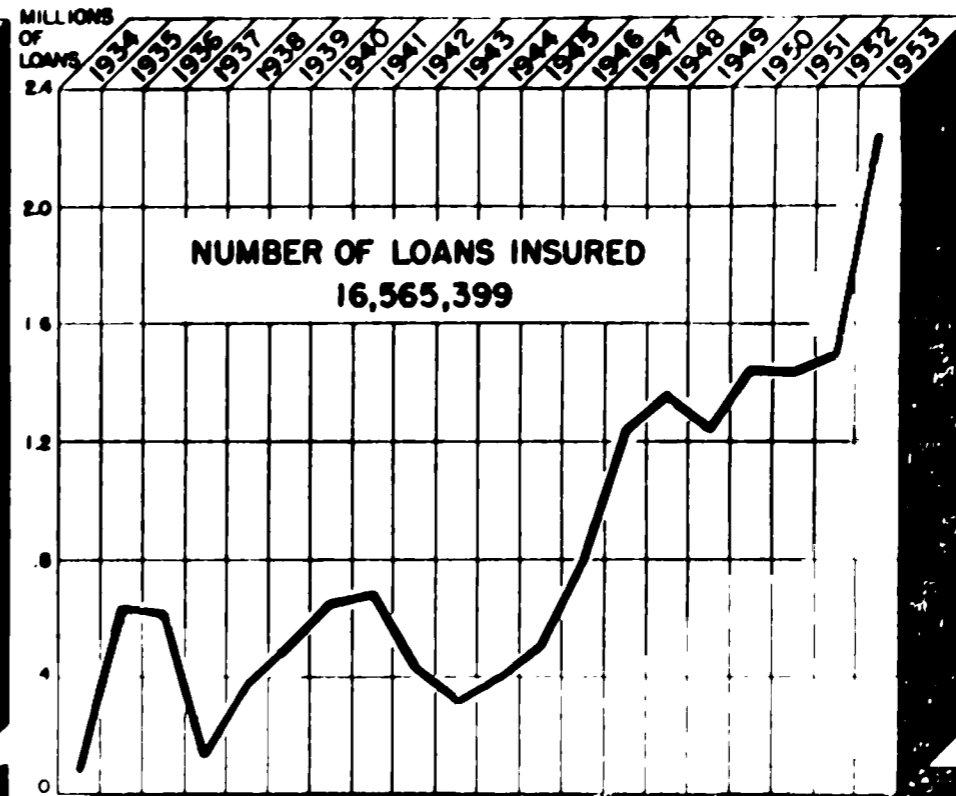
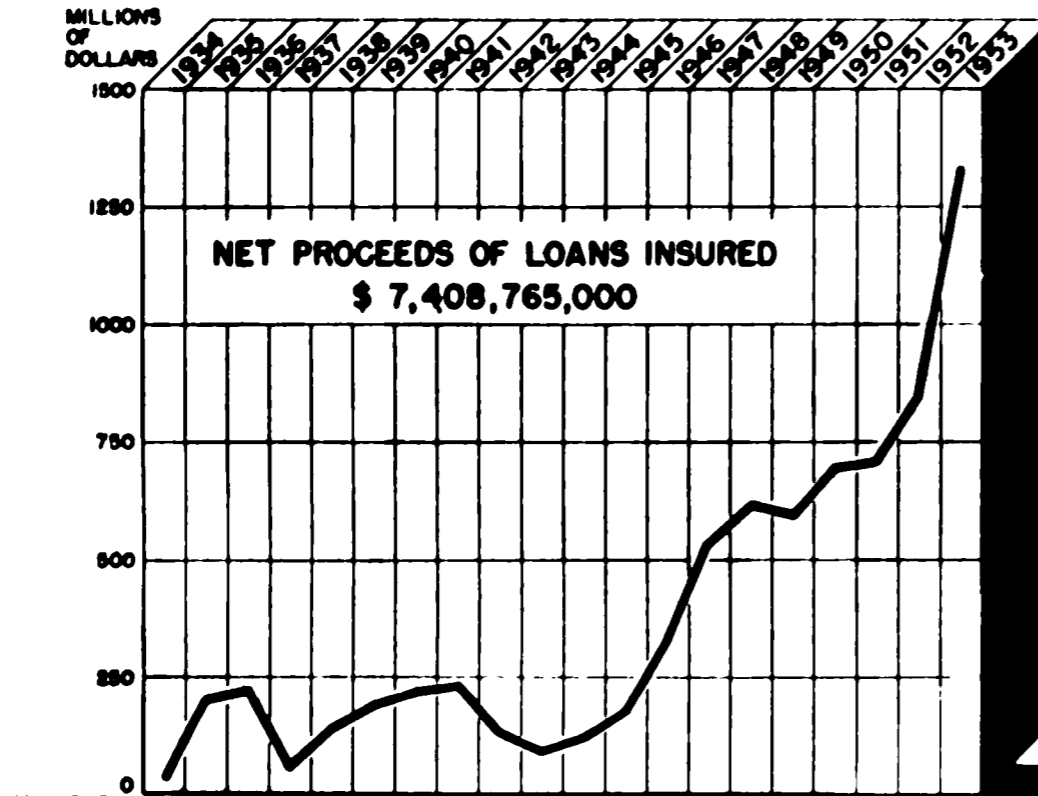
It is difficult to measure the losses to homeowners in this program. In many cases the homeowner paid as much as \$900 for work that should not have cost more than \$300. In other cases the homeowner may have paid \$1,000 or \$1,500 for work which was either worthless or worse than worthless in that it left the property in a greater state of disrepair than existed before the work was done. Due to the limitation of time and staff personnel, it was impossible for the committee to determine the total amount of money involved in these illegal practices.

In concluding this discussion, we emphasize again that the dishonest or fraudulent dealers and/or salesmen engaged in the home repair business constitute a very small segment of the total number of such dealers and salesmen. However, vigilance by the homeowner in checking the character and reputation of those with whom he proposed to do business will further help to eliminate those frauds. The insistence upon having bids from more than one dealer and a careful reading of all papers before they are signed will also give further protection to the homeowner.

The following chart illustrates the overall activities under title I during the years 1934-53:

PROPERTY IMPROVEMENT LOANS INSURED UNDER TITLE I* BY YEARS 1934 - 1953

NUMBER AND NET PROCEEDS OF LOANS INSURED, INCOME RECEIVED, CLAIMS PAID AND CASH RECOVERED



KEY STATISTICS - TITLE I, SECTION 2, (Classes 1 and 2) - 1934 - JULY 1954

NET PROCEEDS OF LOANS INSURED	\$ 8,025,898,000
NUMBER OF LOANS INSURED	17,434,671
AVERAGE NET PROCEEDS PER UNIT	\$ 460
<hr/>	
AMOUNT OF CLAIMS PAID (2.01%)	\$ 161,093,600
NUMBER OF CLAIMS PAID	503,307
AVERAGE AMOUNT OF CLAIM PAID	\$ 320
CASH RECOVERED (40.4%)	\$ 65,099,900
ESTIMATED FUTURE RECOVERY (10.2%)	16,484,900
CLAIMS PAID (COLLECTION DOUBTFUL) (0.99%)	\$ 79,548,800
<hr/>	
TITLE I INSURANCE FUND - JULY 1939 THROUGH JULY 1954	
TOTAL INCOME (PREMIUMS, ETC.)	\$ 160,222,400
UNEARNED PREMIUM INCOME	29,861,800
SALARIES AND EXPENSES	\$ 25,086,700
LOSSES AND RESERVES FOR LOSSES	74,173,800
RESERVES (CAPITAL AND SURPLUS)	\$ 31,100,200
<hr/>	
EXPECTED NET LOSS	\$ 79,548,800 (0.99%)

* LOANS INSURED UNDER TITLE I, SECTION 2, CLASSES 1 AND 2

PART VII. GENERAL FINDINGS FROM THE INQUIRY

SECTION A. INCOME TAX IMPLICATIONS IN FHA FRAUDS

Federal income taxes were a substantial factor leading to the windfall profits disclosed by these hearings. Many builders appear to have been more concerned with the extent to which they might avoid payment of normal taxes on their gains than with the manner or the extent of their profits from these projects. Their basic concern appears to have been their profit on the project after the payment of Federal income taxes.

The normal income taxes which most people are required to pay on the earnings from their labors would take a very considerable part of profits running to \$3 million, \$4 million, and even \$5 million on a project taking only 12 to 18 months to build. In most of the projects reviewed by the committee the builders adopted practices designed, we hope unsuccessfully, either to avoid entirely the payment of any income taxes, or to have their profits taxed as long-term capital gains at the 25 percent (now 26 percent) tax rate.

The device generally adopted in their attempt to achieve a capital gain was substantially this: The sponsor of a section 608 project would either have the sponsoring corporation itself act as general contractor for the job, or enter into a contract on a "cost basis" with a construction company owned by the same interests. Upon the completion of the job there would remain in the sponsoring corporation cash representing the difference between the construction costs and the mortgage proceeds. The sponsoring corporation (but not any of the individuals) was liable for the mortgage debt. The obligations of the corporation were not in excess of its book assets (the cost of construction and cash on hand). That financial situation would not permit the payment of a dividend.

The sponsors then would obtain an appraisal of the corporate property for an amount generally well in excess of the mortgage loan. Writing up the book value of the property to the amount of that appraisal created a corporate surplus that was used to justify the payment of a dividend. The cash funds of the corporation, representing the excess mortgage proceeds over all the costs, were then distributed to the promoters as a long-term capital gain.

Not infrequently additional funds were available by which to increase the amount of that distribution. FHA allowed 18 months to complete a section 608 project. Payments on the FHA insured mortgage did not begin until 18 months after the start of construction. Accordingly, if the project could be built in a shorter period of time there was what the builders called the "free-rent period" during which much of the rental income was available for distribution. This income, too, was distributed as long-term capital gains through the device discussed above.

There was another means by which these capital gains distributions were further increased. Interest and taxes during construction are

generally considered to be a cost of construction. However, tax laws permit these expenses to be charged against operating income. Since FHA mortgage estimates included as costs interest and taxes during construction, by charging those expenses against operating income in the period after tenant occupancy additional funds became available for capital-gains distribution. For tax purposes most builders charged interest and taxes during construction as an operating expense; before this committee they all included those items as construction costs.

In at least two cases the Internal Revenue Service issued rulings that such distributions were long-term capital gains. One of these rulings involved 1 of the 6 corporations in the Shirley-Duke apartments project in Alexandria, Va. On November 30, 1950, the Deputy Commissioner of Internal Revenue wrote the sponsor that since construction had been completed and all costs had been paid, funds transferred to the capital account and distributed to the shareholders would be taxable as a long-term capital gain. The present Commissioner of Internal Revenue has reversed that determination. In a test case now pending before the Tax Court (*George and Anna Gross, et al., v. the Commissioner of Internal Revenue*) he contends that "windfall profits" of section 608 projects are subject to the payment of normal income taxes.

The Commissioner of Internal Revenue has advised this committee that if he is successful in that test case, he intends to proceed against all similar cases. One of the incidents leading to this investigation was the report by the Commissioner to the President listing 1,149 cases in which such windfall profits had been received and were disclosed by the tax returns filed by the corporations. The Commissioner testified that he believed that there were several hundred additional cases to be added to that list.

Glen Oaks Village

The pending test case involves the profits of 11 Glen Oaks Village corporations that obtained FHA-insured mortgages of \$24.4 million on a leasehold. Construction costs were about \$4.3 million less than the mortgage proceeds. These corporations distributed to their stockholders \$4.6 million. It is that distribution which is the basis for the pending test case. The sponsors also obtained a mortgage on the land for \$1.4 million more than they paid for the land.

Two recent cases, *Commissioner of Internal Revenue v. Fannie Hirshon Trust*, decided by the Court of Appeals for the second Circuit Court, May 17, 1954, and *Commissioner of Internal Revenue v. Estate of Ida S. Godley*, decided by the Court of Appeals for the second Circuit, May 28, 1954, appear to support the position taken by the Commissioner with respect to the tax liability on the distribution of windfall profits.

William J. and Alfred S. Levitt; Levittown

The extent to which builders went in making certain that such profits would not be subjected to normal income taxes is shown in the Levittown, N. Y., project. William J. and Alfred S. Levitt built approximately 18,000 houses in Levittown, N. Y.; 6,000 of these were single-family rental houses constructed under section 603 of the act. Cost figures are available only for 4,028 of those rental houses which were constructed by Beth-Page Realty Co., a corporation owned by

the Levitt brothers. The capital stock of Beth-Page Realty Co. was \$50,000. The FHA insured mortgages were for \$29,946,500. Total construction costs were \$5.1 million less than the FHA insured mortgages.

The Levitts' objective appears to have been to withdraw that cash surplus from the corporation without liability for the payment of normal income taxes. The assets of Beth-Page after completion of those houses, were 4,025 dwellings and that \$5.1 million in cash.

The Levitt's advisers conceived the idea of selling the Beth-Page stock to a charity which could purchase the stock with the cash funds of the corporation obtained by declaring a dividend. Efforts were made to locate a suitable charity. Junto, Inc., accepted the proposal. Junto was a charitable corporation engaged in adult education whose total assets at the time of this transaction were less than \$2,000.

With the aid of partial temporary (for a few days) financing from a cooperative bank, Junto purchased the Beth-Page stock from the Levitts for \$5.1 million, declared itself a dividend of \$5.1 million the very day of the purchase, and then paid the \$5.1 million to the Levitts for the acquisition of the stock. As a charitable corporation, Junto took the position that the dividend to it was not taxable. The stock had been held for more than 6 months by the Levitts who therefore claimed a long-term capital gain on the proceeds from the sale.

The Levitts undoubtedly could have sold the 4,028 houses for \$5 million above the amounts of the respective mortgages. However, if \$10 million had thus been available for distribution, but subject to normal income taxes, the net return to the Levitt brothers *after taxes* would have been substantially less than the \$3.8 million (\$5.1 million less 25 percent) that they received on the long-term capital gains through the courtesy of Junto.

Shelby Construction Co. and Warner-Kanter Cos.

The second tax pattern followed by section 608 builders was designed to avoid the payment of all taxes. Shelby Construction Co., the Warner-Kanter Cos., and Saul Silberman are illustrations of this technique.

Paul Kapelow and Louis Leader incorporated Shelby Construction Co. in 1948 with a capital of \$100,000. (Emile Bluestein originally owned 10 percent of the stock but they later bought him out for \$315,000.) Kapelow and Leader created 11 corporations, known as the Parkchester group, which were wholly owned subsidiaries of Shelby. These corporations had no assets (perhaps a few hundred dollars each) other than the land on which the project was subsequently built. Those 11 "paper" corporations obtained mortgage commitments from FHA in the amount of \$10.8 million for the construction of a section 608 project in New Orleans.

The Parkchester group corporations then entered into contracts with Shelby for the construction of the project for amounts which resulted in Shelby obtaining the entire mortgage proceeds. The cost of the project was substantially less than the mortgage proceeds. Shelby claims the windfall was \$1.7 million; FHA says it was \$3.4 million; and our staff believes it to be about \$2.5 million. The difference in these figures results wholly from different views as to the

propriety of including as costs of construction such items as payments to the sponsors themselves, entertainment, and travel expenses.

On completion of the buildings only the Parkchester group corporations were liable for the repayment of the mortgage debt. But the excess mortgage proceeds were in the hands of Shelby which was not liable for the mortgage debt. The 11 companies and Shelby then filed a consolidated income-tax return which avoided the payment of any income tax on the "windfall profits" by treating the transactions as intracompany dealings. Thus the windfall profits were transferred to Shelby, not liable for the debt, without the payment of income taxes. The property soon got into difficulties and was virtually abandoned by the Kapelow interests. Shelby sold its stock in those 11 companies to a group of New Yorkers for \$5,000 cash and an additional \$110,000 to be paid over a period of time (presumably out of rental income). The property has since defaulted and is now in the process of foreclosure by the Government.

Kapelow and Leader have had full use of these funds without paying taxes on that income. Shelby has never paid any dividends, and salaries to Kapelow and Leader have been modest, but very substantial sums have been loaned by the parties. At the inception of this project, Kapelow and Leader presented financial statements showing each was worth \$300,000. They used these "windfall" funds to finance other projects and 4 years later their financial statement showed each to be worth \$3½ million. Had normal income taxes been paid by these businessmen on the earnings of their labors it would not have been possible for them, after the payment of their taxes, to have accumulated that wealth in so short a period of time.

The Warner-Kanter Cos. in Cincinnati utilized the same device to have the benefits of the use of funds representing the profits of their venture without paying income taxes on those profits.

Saul Silberman

In many similar cases the promoters have loaned large sums of money to themselves, sometimes at no interest, sometimes at one-half of 1 percent interest, and sometimes at 1 percent interest. Since interest is itself a tax deduction, the payment of such interest on loans would not in a normal lifetime ever equal the capital gains taxes required to be paid on such profits. Saul Silberman, a former FHA employee, adopted this practice in Uplands Apartments, Inc. There was a \$1 million "windfall" in that project which ended up in the construction corporation. By filing a consolidated income-tax return it paid no tax on that gain. The funds were then in part loaned, at minimum interest rates, to the promoters and more than \$500,000 was advanced to rehabilitate a racetrack owned by Silberman.

In another case, a dentist turned builder, Dr. Dewey S. Gottlieb, used such tax-free funds to buy a string of racehorses and a cruiser on which to entertain jockeys.

In these cases the promoters have had every useful enjoyment of the windfalls resulting from their Government-financed projects, and the Government has received no taxes whatever on those "profits."

A third tax abuse, perhaps not limited to section 608 projects, was charging as construction costs expenditures not properly a part of the cost of construction. The only case in which the committee made any

attempt to audit the books of a sponsor was in the Woodner properties. General Accounting Office auditors found that Woodner had included as construction costs \$87,000 in detective fees connected with his divorce litigation, about \$50,000 in lawyers fees concerning his marital problems, the expense of a trip to Nassau to recuperate from the strain of those marital difficulties, and a number of other equally improper charges.

Morris Cafritz

The Cafritz Parklands Manor project illustrates still another income-tax device. Most fathers cherish the hope of being able to create an estate for their children. Paying normal income taxes on one's earnings, and gift taxes on funds given to children, makes this a rather difficult objective. Morris Cafritz, Washington, D. C., builder, found a solution to that problem. In the early 1940's Cafritz acquired a 100-acre tract of land in the southeast quadrant of the District of Columbia. In 1946 Cafritz transferred this land to Parklands, Inc. whose stock he held in trust for his three sons. The corporation had no liabilities and its only asset was the land. In a gift-tax return he valued the land at \$69,000. Cafritz testified that the Internal Revenue Service subsequently raised the value of this land, he thought the increased valuation might have been \$3,000 or \$3,500 an acre but he was not certain.

The next step was for Parklands, Inc. to transfer 20 acres of the tract to a wholly owned subsidiary, Parklands Manor, Inc., which had nominal capital stock. Parklands Manor, Inc., then applied for and received an FHA insured mortgage under section 608 for \$4.2 million. The land which had cost Cafritz \$690 an acre was valued in this application at \$20,000 an acre and was ultimately valued by FHA at \$21,000 an acre.

Actual construction of the project was by Banks & Lee, Inc., Washington builders, although Cafritz himself was in the building business. The total construction costs of the project were \$550,000 less than the mortgage proceeds.

Those "windfall profits" were then used to finance other real-estate projects owned in trust for the Cafritz children. The Parklands Manor, Inc. balance sheet for December 31, 1953, showed loans to such affiliated corporations, at one-half of 1 percent interest, in the amount of \$630,000. Through this manner a shopping center, Parklands Shopping Center, Inc., and several other similarly owned housing projects have been constructed. Those properties have a cost of \$7.2 million. Outstanding mortgages will at current rent levels be repaid from rental income. There will be no income taxes due the Federal Government on the rental income used to pay off the mortgages. In the absence of adverse economic conditions, the Cafritz children will ultimately own, free and clear, properties having a cost of \$7.2 million and which were constructed out of a gift by Cafritz of land costing him \$69,000. No gift taxes will be payable beyond those applicable to the gift of the land, and no income taxes will be paid except to the extent that rental income from the property exceeds all costs of operation including the repayment of the principal amount of the mortgage (payable out of depreciation funds).

SECTION B. DISTRIBUTION BY TIME AND AREA OF SECTION 608 MORTGAGES

The application of the rental housing program of FHA during different periods of its administration, and in different sections of the country, presents some interesting statistical information reflecting, at least indirectly, on the administration of the program.

New York, New Jersey, Maryland, and Virginia were the principal beneficiaries of the section 608 program. In proportion to their population, Illinois, Ohio, Michigan, and Massachusetts appear to have received the minimum number of new dwelling units from this program. A total of 465,000 new dwelling units were built in 7,045 projects under section 608 of the Housing Act. New York, with 9 percent of the population, received 18.4 percent of the units built under this program; New Jersey, with 3 percent population, received 11 percent of the units; Maryland, with 1.5 percent of the population, had 7.3 percent of the units; and Virginia, with 2 percent of the population, had 6.4 percent of the units. Most of the Virginia projects were in the northern part of the State in what is generally considered a part of the metropolitan area of the District of Columbia.

On the other hand, Ohio, with 5 percent of the population, received only 3.5 percent of the units built under section 608; Illinois, with 5.5 percent of the population, had 3.6 percent of the units; Michigan, with 4 percent of the population, received only 1.6 percent of the units; and Massachusetts, with almost 3 percent of the population, received only 0.7 percent of the units. Significantly, the committee found the greatest volume of "mortgaging out" and other irregularities in New York, New Jersey, Maryland, and to a lesser extent Virginia. And we found a minimum of these irregularities in Ohio, Illinois, Michigan, and Massachusetts. (This statement does not ignore that there were irregularities in those States to some extent, particularly Ohio and Michigan.)

Tables I and II, on pages 70 and 71; show graphically the percentages of mortgages insured under section 608 by States, in the years 1942 through 1953, based respectively on the percentage distribution of the total dwelling units and the percentage distribution of the total amount of mortgage.

SUMMARY OF COMMITTEE'S INVESTIGATION OF SECTION 608 PROJECTS

This committee had neither time nor the staff facilities available to permit an inquiry into all the 7,045 projects financed with mortgage insurance under section 608 of the act. We sought to inquire, however, into all those projects in which information coming to the committee from any source indicated that there might be irregularities.

This committee inquired into over 600 section 608 projects in executive session. Of these public testimony was taken with respect to 543 projects. In 437 of these projects the mortgage proceeds exceeded 100 percent of all costs, while in the remaining 106 cases the costs exceeded the mortgage proceeds. In no case was the mortgage less than 90 percent of the actual costs.

The 437 projects scrutinized by the committee in public hearings in which the mortgages exceeded total costs involved mortgage proceeds totaling \$590,118,276 (the face amount of the mortgage plus any

premiums received by the mortgagor and less any discounts paid by the mortgagor).

The mortgage proceeds in these 437 cases exceeded the total costs of the projects, including every disbursement to any person for anything, by \$75,824,239. The total costs were thus 12.7 percent less than the mortgage proceeds. The statute provided for mortgages not to exceed 90 percent of the estimated costs and FHA mortgages were not more than 90 percent of its estimate of the cost of the project. On the average, therefore, the actual costs in these 437 cases were 21.6 percent less than the FHA Commissioner's estimated costs.

These figures are subject to possible correction in two respects: (1) The costs given are the builders own statements of their total costs. The very few cases in which we have checked costs lead to the conclusion that at least some builders padded their costs to some degree. Actual costs are undoubtedly lower, but the extent to which that was a prevalent practice and the amount by which such costs may have been padded is unknown to the committee. (2) In many, but by no means all, of these cases the sponsor was himself a builder and did not pay himself a builder's fee. In estimating costs FHA allowed a builder's fee of 5 percent even though the owner was himself the builder. This factor would reduce the spread between estimated costs and actual costs by something less than 5 percent. However, builders' fees were considered as a part of the equity to be furnished over and above the 90 percent Government-insured mortgage. A builder's fee could cover part of the estimated cost between the 90 percent mortgage and 100 percent of the estimated cost. As shown above, however, the mortgage proceeds in these cases averaged 12.7 percent in excess of all costs in these projects.

The 106 cases in which the mortgage proceeds were less than total costs, involved mortgage proceeds of \$148,422,451. The total costs in excess of those mortgage proceeds were \$6,876,645, or but 4.6 percent of the mortgages. Averaging the entire 543 cases, the total mortgage proceeds of \$738,540,727 were 9.3 percent in excess of total costs. On the average, the actual costs in these 543 cases were 18.4 percent less than the FHA Commissioner estimated costs.

Table III on page 75 shows by States the number of projects, mortgage proceeds, and excess or deficiency of mortgage proceeds over costs, for the projects inquired into by the committee. Table IV on page 77 breaks down the excess of mortgage proceeds over total costs by years.

TIME DISTRIBUTION OF WINDFALLS

The 437 projects inquired into by the committee showed total windfalls, the excess of mortgage proceeds over all costs, in 1946 of only \$12,523 in 1947 of \$525,616, and in 1948 \$2,166,369. In 1949 these windfalls jumped to \$18,774,176 and were in excess of \$20 million in each of the years 1950 and 1951. These windfalls were almost \$10 million in 1952, and in excess of \$3 million in 1953. The section 608 program ended in 1950. The years stated are those in which the projects were completed and the costs became known.

Significantly, in the period of the greatest housing need, 1946 through 1948, there were the smallest windfalls. The largest windfalls occurred after Congress had found that the program could be terminated, in 1950 through 1952. One factor accounting for the increase

in windfalls in the later years is that there appears to have been a decline in material prices, following the postwar shortage of materials, of which FHA was apparently not cognizant. Many builders were apparently able to purchase materials at substantially lower costs than those used by FHA in computing their estimates of cost. But the Congress had provided by the 1947 amendment to the Housing Act that all FHA estimates should be as close as possible to the "actual costs of efficient building operations."

MORTGAGE DEFAULTS

On May 31, 1954 the FHA was the owner of 137 projects with 7,336 mortgage units which it was required to take over because of defaults by the mortgagors. And by that date it had been compelled to acquire mortgage notes from the holders of an additional 113 projects with 8,644 units because of defaults by the mortgagors. The mortgages in these 250 projects originally totaled \$117 million, and the Commissioner's present investment in those projects is \$114.8 million. In addition the FHA had taken over an additional 41 projects with 2,870 rental units which it had been able to sell by May 31, 1954. The Commissioner's investment in these 41 projects was \$13,971,829. The total sales price was \$13,018,941, resulting in a loss to the Government on those 41 projects of \$952,888. This loss is approximately 7 percent of the face amount of those mortgages. It is not possible to estimate the FHA total loss on the remaining projects because it is not possible to know the price at which they can be sold. FHA has estimated that one \$3.9 million mortgage on a project in nearby Virginia (Lewis Gardens), on which the sponsor had a \$970,000 windfall, will result in a loss to the FHA of between \$700,000 and \$2 million.

Most of the mortgages insured by FHA under the section 608 program have more than 25 years to run to maturity. The extent to which those properties may be adequate security for the mortgages will depend in large part on the extent to which the owners maintain the properties. This is a matter over which FHA has but little effective control. It is just not possible to forecast what may be the Government's ultimate liability on these mortgages except to say that it is potentially a substantial liability.

There are now outstanding mortgages under the section 608 program with unpaid balances of \$3,014,076.394. The potential liability of the Government as guarantor of those mortgages may be seriously affected by the fact that in a great many cases the owner of the property has no investment in the project. Some projects were apparently built with the view to making a quick profit from the mortgage proceeds, and not with the view to obtaining long-term rental income.

It is likely that some of these projects will just not last the 30 years over which the mortgage is payable. Many of the projects in which the owner has the smallest investment are large properties with in excess of 1,000 and 2,000 apartments. There is the dangerous possibility that some of these properties may ultimately become slum areas. When the owner of property has made no investment, and his objective is to obtain the greatest short-term gain from the property without regard to the long-term maintenance and preservation of a property, those conditions exist that frequently result in creating slums.

Table V, on page 79, shows the number of projects, the amount of the mortgages, and the Government's investment, by States, in those defaulted projects.

The largest number of defaults occurred in Louisiana in spite of the fact that only 1.5 percent of the total number of mortgages issued under section 608 were in that State. Forty projects with 2,279 units and mortgages of \$19 million defaulted in Louisiana. This is more than 30 percent of the total number of units constructed in Louisiana under section 608, and more than 35 percent of the dollar amount of the mortgage commitments issued in Louisiana. To date the Commissioner has sold but one of the projects taken over in Louisiana.

In the public hearings at New Orleans, the local FHA officials were asked to account for this high ratio of defaults. Their explanation was that multifamily housing units were forced upon the community, by FHA in Washington, and that the community was not ready to accept and did not want that type of dwelling unit. They told the committee that traditionally people in that area had lived in single-family homes, duplexes, and quadruplexes. The people did not want multifamily residential units and many of the projects taken over by the Government on default had an occupancy of less than 25 percent. Over the years that the Government has managed those properties it has slowly built up occupancy to a satisfactory level.

An even larger number of defaults, but involving total mortgages in a smaller dollar amount, occurred in Florida. Forty-three mortgages covering 2,330 units and with FHA mortgages of \$16.2 million have defaulted in Florida. This is 22.7 percent of the mortgages issued in Florida.

Other States in which there have been substantial defaults are: Virginia, South Carolina, Oklahoma, and Arkansas. New York, which had 20.9 percent of the total dollar amount of mortgages issued under the section 608 program, has had only 8 defaults on mortgages of \$9.5 million.

The tables referred to above follow:

TABLE I

PROJECT MORTGAGES INSURED UNDER SECTION 608, BY STATES
1942 THROUGH 1953

PERCENTAGE DISTRIBUTION BASED ON NUMBER OF DWELLING UNITS

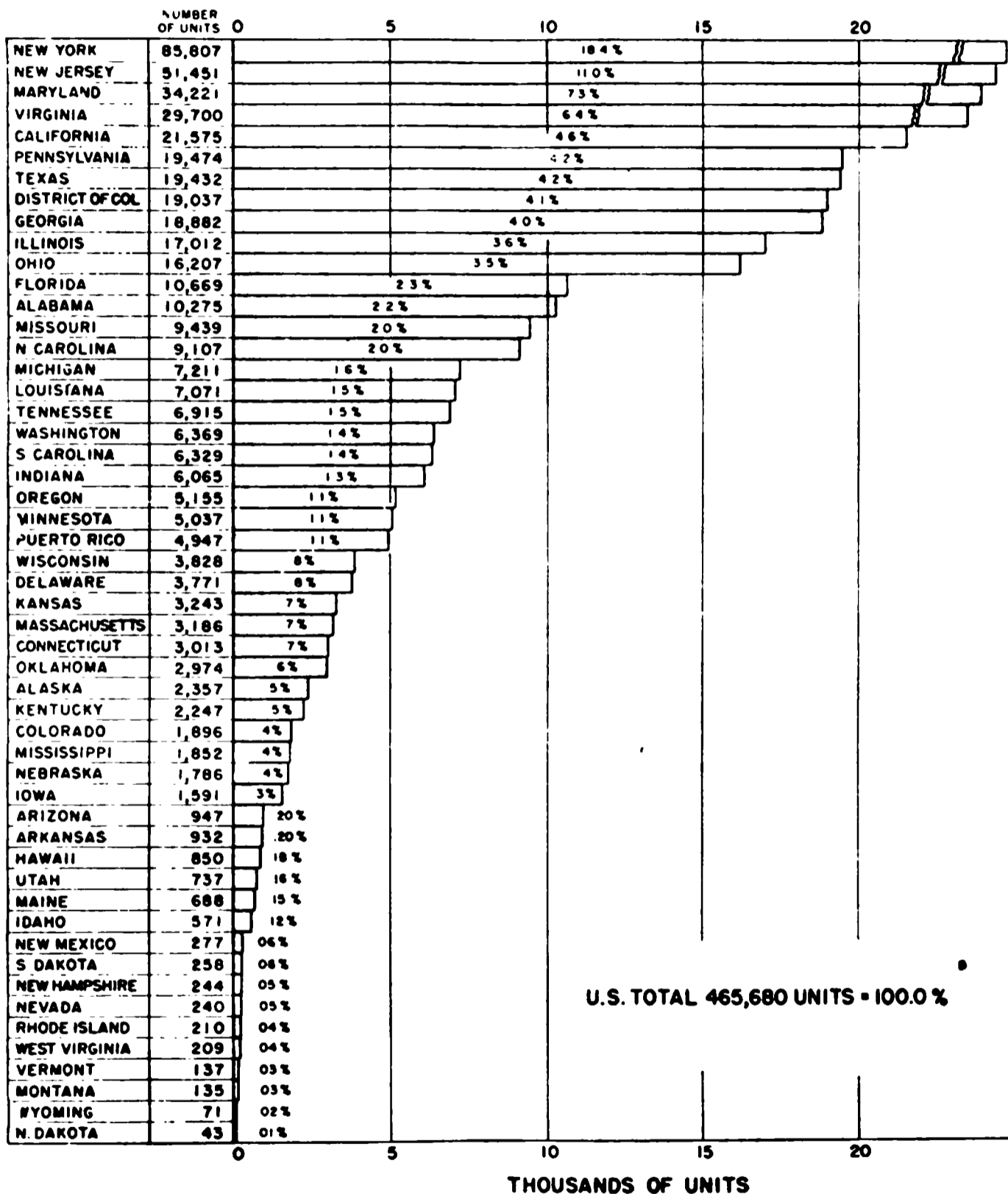


TABLE II
PROJECT MORTGAGES INSURED UNDER SECTION 608, BY STATES
1942 THROUGH 1953

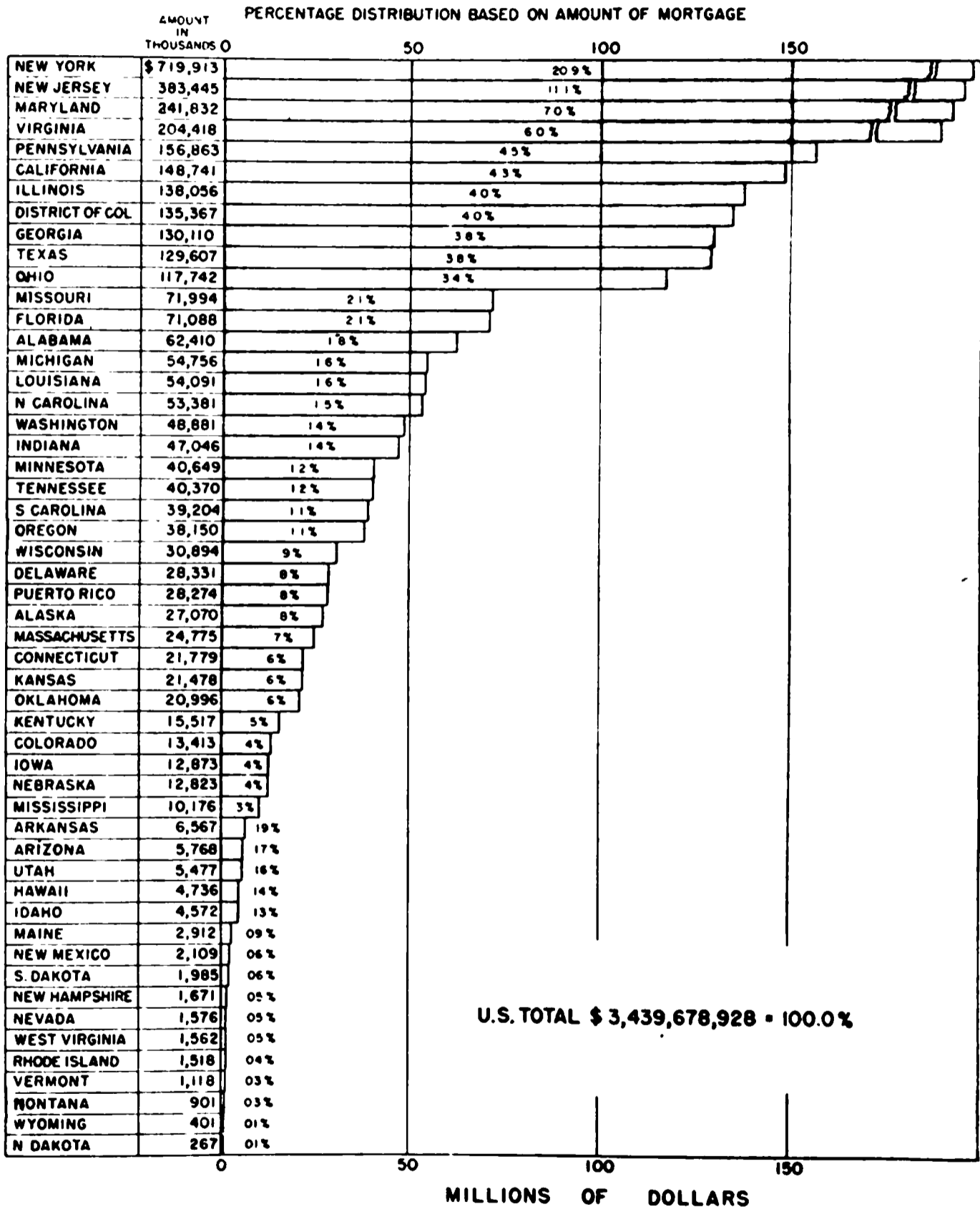
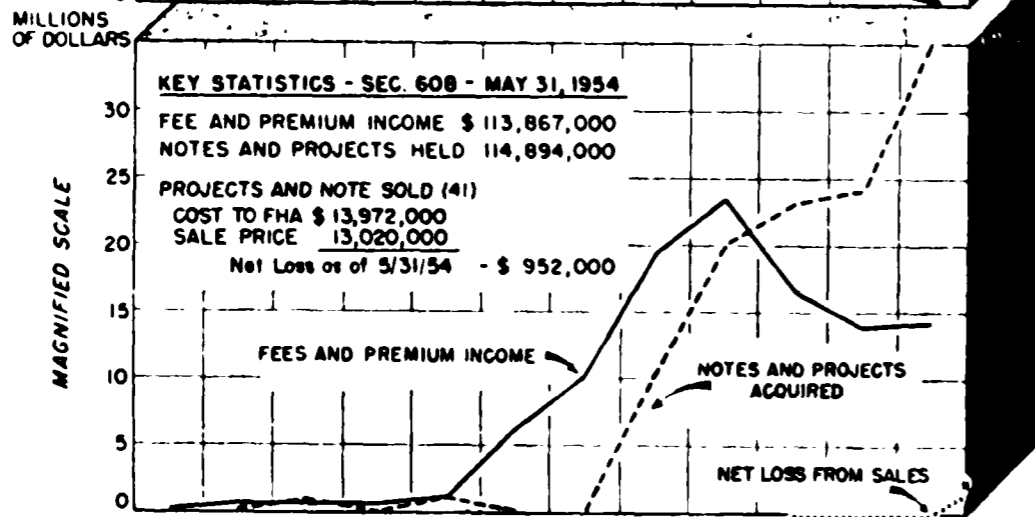
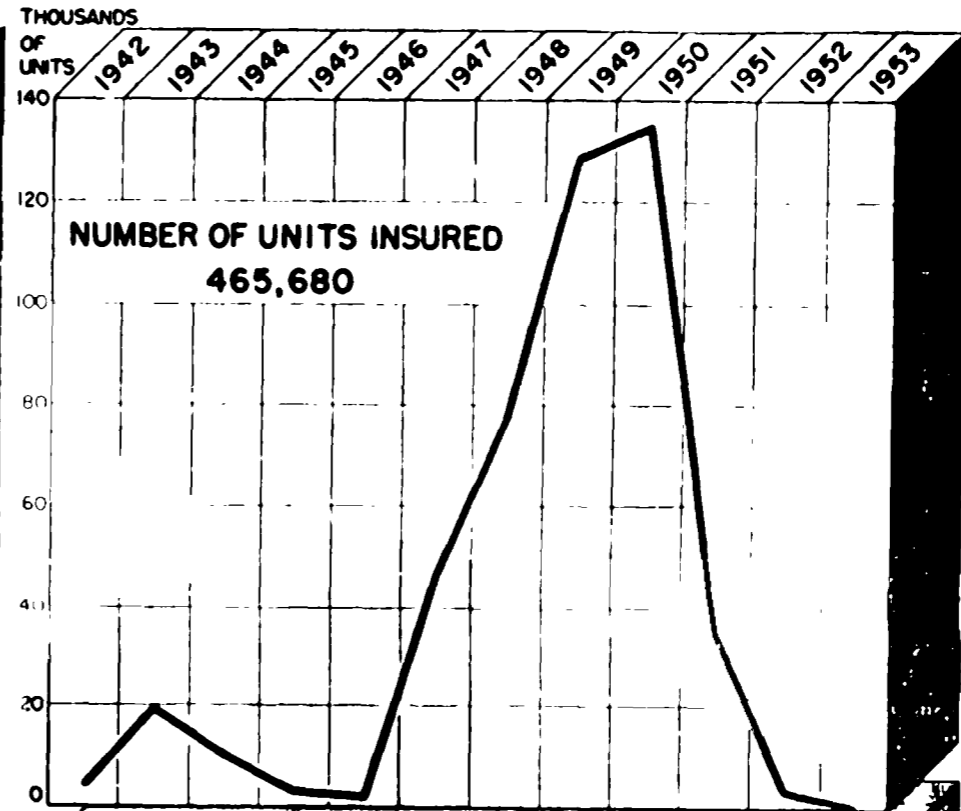
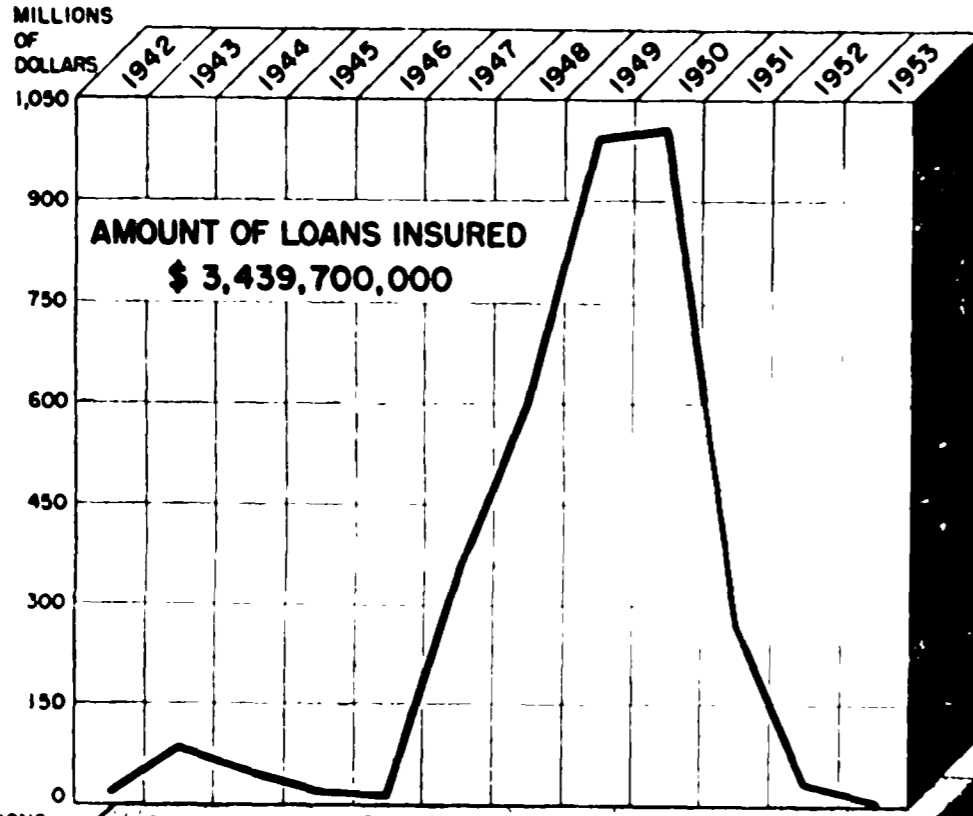


TABLE II-A

PROJECT MORTGAGES INSURED UNDER SECTION 608, BY YEARS 1942 - 1953
NUMBER AND AMOUNT OF LOANS INSURED, PREMIUMS RECEIVED AND MORTGAGES FORECLOSED



KEY STATISTICS - SECTION 608, 1942 - 1953

MORTGAGES INSURED, FACE AMOUNT	\$ 3,439,679,000	= 100%
NUMBER OF DWELLING UNITS	465,680	
AVERAGE MORTGAGE PER UNIT	\$ 7,386	
(Statutory Limit - \$ 8,100)		
ESTIMATED COST PER UNIT (\$ 9,000)	\$ 8,207	
FEES AND PREMIUM INCOME	\$ 26,509,000	
PREMIUM INCOME	81,093,000	
Total Fees and Premium Income	107,602,000	3.1%
MORTGAGE NOTES HELD BY FHA - 12/31/53 (103)	\$ 53,011,000	
PROJECTS OWNED BY FHA as of 12/31/53 (135)	54,406,000	
Total Holdings as of 12/31/53	107,417,000	3.1%
PROJECTS SOLD BY FHA (28) SALES PRICE	\$ 8,219,000	
PROJECTS COST TO FHA (28)	8,020,000	
Net Profit on 28 Projects Sold	199,000	

* NET LOSS AS OF MAY 31, 1954 \$ 952,000 ON 41 PROJECTS SOLD 0.27%

DURING THE FIRST 5 MONTHS OF 1954 13 PROJECTS WERE SOLD AT A LOSS OF \$ 1,151,400

TABLE II-B.—Project mortgages insured under section 608, by States, 1942 through 1953—dollar amount of mortgage distributed by years

Code	State	Number of projects	Number of units	Total mortgage insurance written	1942 to 1946, inclusive	1947	1948	1949	1950	1951	1952 and 1953
01	Alabama	205	10,275	\$62,410,418	\$1,091,000	\$9,105,200	\$15,992,100	\$15,843,300	\$14,771,429	\$5,601,889	\$5,500
02	Arizona	37	947	5,768,712	831,700	959,750	3,113,850	103,814	759,598		
03	Arkansas	48	932	6,567,000		4,425,700	963,300	486,090	692,000		
04	California	908	21,575	118,741,767	5,683,562	4,245,400	58,131,812	56,282,315	19,265,113	4,630,318	203,187
05	Colorado	60	1,896	13,413,144	1,993,500	2,102,300	606,100	351,900	8,359,344		
06	Connecticut	45	3,013	21,779,200	4,373,900	1,179,800	5,336,100	4,317,000	2,329,000	1,243,400	
07	Delaware	15	3,771	28,331,277		2,495,400	4,021,400	11,590,000	9,654,200		570,277
08	District of Columbia	170	19,037	135,367,466	21,496,149	8,075,400	11,529,500	66,249,000	13,163,400	10,431,251	1,422,766
09	Florida	317	10,669	71,088,800	136,500	17,528,800	27,594,300	20,419,500	5,119,300	290,400	
10	Georgia	157	18,882	130,110,030	2,998,700	12,375,700	22,776,000	40,285,900	40,182,200	10,971,322	520,208
12	Idaho	8	571	4,572,600		2,458,800	1,046,500	707,300	345,800	14,200	
13	Illinois	269	17,012	138,056,106	9,125,500	33,913,200	10,818,648	13,931,197	41,906,290	21,692,465	6,668,806
15	Indiana	103	6,065	47,046,792	273,900	7,145,100	3,105,292	15,303,700	19,308,300	1,910,500	
16	Iowa	27	1,591	12,873,300			76,500	3,626,700	8,904,200	265,900	
18	Kansas	68	3,243	21,478,957	2,224,400	2,392,600	3,169,300	4,739,318	7,547,439	1,405,900	
20	Kentucky	80	2,247	15,517,956	440,900	6,608,156	2,774,400	2,512,500	3,182,000		
22	Louisiana	82	7,071	54,091,017	4,827,100	673,400	14,709,100	11,667,300	14,191,900	8,011,178	11,039
23	Maine	14	688	2,912,661	2,700,661	120,000			92,000		
24	Maryland	280	34,221	241,832,724	25,698,000	30,011,700	60,370,500	85,249,000	37,107,243	3,396,281	
25	Massachusetts	36	3,186	24,775,818	2,966,000	5,212,900	6,841,300	6,001,500	3,728,518	24,700	
26	Michigan	229	7,211	54,756,794	3,270,324	6,702,900	10,034,753	16,217,000	14,713,327	3,740,679	77,811
27	Minnesota	144	5,037	40,649,199		689,400	1,041,070	16,214,679	17,849,450	4,828,600	26,000
28	Mississippi	40	1,852	10,176,200		95,400	964,600	5,811,900	2,447,900	856,400	
29	Missouri	128	9,439	71,994,204	3,026,000	846,400	10,215,400	10,745,445	32,002,228	15,158,731	
31	Montana	3	135	901,200			90,000		805,000	6,200	
32	Nebraska	51	1,786	12,823,580	236,600	33,000	1,779,800	5,021,383	4,551,397	1,201,400	
33	Nevada	13	240	1,576,500			1,039,300		537,200		
34	New Hampshire	7	244	1,671,840			101,400	1,395,853	174,587		
35	New Jersey	510	51,451	383,445,402	20,579,087	55,253,700	76,913,750	99,625,600	85,252,632	32,945,198	12,875,435
36	New Mexico	11	277	2,109,978				571,300	810,200	728,478	
37	New York	736	85,807	719,913,566	5,365,600	41,450,500	100,129,400	214,264,797	282,550,300	71,115,696	5,037,273
38	North Carolina	86	9,107	53,381,898	3,126,900	4,621,300	6,102,400	23,502,183	16,017,600		11,515
40	North Dakota	3	43	267,552			45,000	125,552		97,000	
41	Ohio	272	16,207	117,742,671	13,372,389	10,067,400	5,783,070	14,126,121	37,328,754	37,059,309	5,628
42	Oklahoma	110	2,974	20,996,442	123,700	5,606,400	9,521,500	3,006,100	2,615,550	123,192	
43	Oregon	138	5,155	38,150,132	4,150,941	3,487,900	10,863,900	7,240,500	11,259,722	1,123,000	24,169
44	Pennsylvania	313	19,474	156,863,728	871,600	8,427,100	24,621,350	57,382,034	58,551,135	7,010,509	
45	Rhode Island	6	210	1,518,900			738,000	684,800	96,100		
46	South Carolina	85	6,329	39,204,767		1,399,100	4,636,000	17,865,000	11,121,400	762,447	420,820
47	South Dakota	8	258	1,985,000			541,100	231,900	1,212,000		
48	Tennessee	115	6,915	40,370,159		120,200	4,522,500	9,091,800	23,641,959	2,993,700	
49	Texas	377	19,432	129,607,415	3,734,709	9,757,800	25,065,317	38,517,989	42,493,300	9,963,100	75,200
52	Utah	18	737	5,477,895	743,600	481,700		929,600	2,535,695	787,300	

FHA INVESTIGATION

TABLE II-B.—Project mortgages insured under section 608, by States, 1942 through 1953—dollar amount of mortgage distributed by years—Con.

Code	State	Number of projects	Number of units	Total mortgage insurance written	1942 to 1946, inclusive	1947	1948	1949	1950	1951	1952 and 1953
53	Vermont.....	4	137	\$1,118,200				\$700,000	\$260,800	\$100,000	\$57,400
54	Virginia.....	301	29,700	204,418,660	\$25,546,500	\$37,572,300	\$37,672,200	69,588,000	33,178,255	556,600	304,814
56	Washington.....	111	6,369	48,881,972	619,300	11,934,400	14,808,787	10,885,948	9,023,407	1,610,130	
57	West Virginia.....	12	209	1,562,000				224,800	939,500	374,000	23,700
58	Wisconsin.....	156	3,828	30,894,284	82,700	6,129,700	2,161,485	4,098,346	17,351,885	1,070,168	
59	Wyoming.....	5	71	401,125	224,400		50,400	126,325			
60	Alaska.....	19	2,357	27,070,611				8,401,400	16,361,900	2,076,900	230,411
70	Hawaii.....	51	850	4,736,700		1,206,300	3,144,300	325,600	60,500		
80	Puerto Rico.....	25	4,947	28,274,600					28,274,600		
81	Canal Zone.....										
82	Virgin Islands.....										
	United States total.....	7,046	465,680	3,439,678,928	174,936,722	359,912,206	605,862,784	996,589,229	1,007,627,557	266,178,471	28,571,959

TABLE III.—Summary of section 608 projects investigated on which data were available

Code	State	Total projects (1)	Number in which there was a windfall (2)	Number in which there was no windfall (3)	Total mortgage proceeds (4)	Total mortgage proceeds where there was a windfall (5)	Total mortgage proceeds where there was no windfall (6)	Excess of mortgage proceeds (col. 5) over total costs (7)	Excess of total costs over mortgage proceeds (col. 6) (8)
01	Alabama	7	6	1	\$3,544,398	\$2,322,803	\$1,221,595	\$188,560	\$3,377
02	Arizona								
03	Arkansas								
04	California	91	90	1	22,615,200	21,000,200	2,615,000	780,117	12,000
05	Colorado								
06	Connecticut								
07	Delaware	5	5		7,974,400	7,974,400		530,283	
08	District of Columbia	29	17	12	38,896,266	24,626,616	14,269,650	2,545,968	1,685,654
09	Florida								
10	Georgia	1	1		1,402,000	1,402,000		301,710	
12	Idaho								
13	Illinois	2		2	6,354,100		6,354,100		741,338
15	Indiana	18	18		21,889,848	21,889,848		839,208	
16	Iowa								
18	Kansas	2	2		1,887,500	1,887,500		304,189	
20	Kentucky	2	2		2,419,200	2,419,200		198,700	
22	Louisiana	14	14		22,779,200	22,779,200		2,129,304	
23	Maine								
24	Maryland	22	21	1	41,043,200	39,507,400	1,535,800	4,397,273	15,049
25	Massachusetts								
26	Michigan								
27	Minnesota								
28	Mississippi	8	8		1,741,600	1,741,600		212,311	
29	Missouri	6	2	4	18,755,108	7,426,757	11,328,351	405,238	412,000
31	Montana								
32	Nebraska								
33	Nevada								
34	New Hampshire								
35	New Jersey	76	60	16	92,169,429	70,476,837	21,692,592	7,326,593	1,641,259
36	New Mexico								
37	New York	155	145	10	322,784,187	306,399,024	16,385,163	46,108,219	913,033
38	North Carolina								
40	North Dakota								
41	Ohio	12	7	5	28,681,782	18,952,482	9,729,300	2,966,963	487,477
42	Oklahoma								
43	Oregon								
44	Pennsylvania								
45	Rhode Island								
46	South Carolina								
47	South Dakota								

TABLE III.—Summary of section 608 projects investigated on which data were available—Continued

Code	State	Total projects	Number in which there was a windfall	Number in which there was no windfall	Total mortgage proceeds	Total mortgage proceeds where there was a windfall	Total mortgage proceeds where there was no windfall	Excess of mortgage proceeds (col. 5) over total costs	Excess of total costs over mortgage proceeds (col. 6)
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
48	Tennessee.....							\$1,380,146	
49	Texas.....	6	6		\$6,738,520	\$6,738,520			
52	Utah.....								
53	Vermont.....								
54	Virginia.....	33	33		33,573,889	33,573,889		5,209,457	
56	Washington.....								
57	West Virginia.....								
58	Wisconsin.....								
59	Wyoming.....								
60	Alaska.....								
70	Hawaii.....								
80	Puerto Rico.....								
81	Canal Zone.....								
82	Virgin Islands.....								
	Not distributed by States.....	54		54	63,290,900		\$63,290,900		\$935,458
	United States total.....	543	437	106	738,540,727	590,118,276	148,422,451	75,824,239	6,876,645

TABLE IV.—Summary of section 608 projects investigated on which total mortgage proceeds exceeded total costs—excess mortgage proceeds distributed by years

Code	State	Number of projects	Number of units	Total mortgage proceeds	Excess of mortgage proceeds over total costs	1944-45	1946	1947	1948	1949	1950	1951	1952	1953
01	Alabama	6	353	\$2,322,803	\$188,560					\$29,672	\$155,317	\$3,571		
02	Arizona													
03	Arkansas													
04	California	90	2,284	20,000,200	780,117				\$121,240	289,023	227,154	142,700		
05	Colorado													
06	Connecticut													
07	Delaware	5	978	7,974,400	530,283							530,283		
08	District of Columbia	17	3,226	24,626,616	2,545,968		\$12,523		40,523	554,622	996,300		\$942,000	
09	Florida													
10	Georgia	1	220	1,402,000	301,710						301,710			
12	Idaho													
13	Illinois													
15	Indiana	18	2,569	21,889,848	839,208					161,548	157,765	363,483	156,412	
16	Iowa													
18	Kansas	2	302	1,887,500	304,189						202,433	101,756		
20	Kentucky	2	316	2,419,200	198,700							198,700		
22	Louisiana	14	2,571	22,779,200	2,129,304					1,746,488		97,116	286,000	
23	Maine													
24	Maryland	21	5,108	39,507,400	4,397,273					817,096	2,379,049	941,748	259,380	
25	Massachusetts													
26	Michigan													
27	Minnesota													
28	Mississippi	8	250	1,741,600	212,311						212,311			
29	Missouri	2	844	7,426,757	405,238								288,617	\$116,621
31	Montana													
32	Nebraska													
33	Nevada													
34	New Hampshire													
35	New Jersey	60	9,826	70,476,837	7,326,593			\$525,616		1,761,111	1,527,586	2,847,194	486,270	178,836
36	New Mexico													
37	New York	145	34,477	306,399,024	46,108,219				1,567,158	12,307,065	9,538,860	15,835,273	5,309,677	1,550,206
38	North Carolina													
40	North Dakota													
41	Ohio	7	2,602	18,952,482	2,966,963							283,850	1,416,600	1,266,513
42	Oklahoma													
43	Oregon													
44	Pennsylvania													
45	Rhode Island													
46	South Carolina													
47	South Dakota													
48	Tennessee													

54468-51-6

FHA INVESTIGATION

TABLE IV.—Summary of section 608 projects investigated on which total mortgage proceeds exceeded total costs -excess mortgage proceeds distributed by years -Continued

Code	State	Number of projects	Number of units	Total mortgage proceeds	Excess of mortgage proceeds over total costs	1944-45	1946	1947	1948	1949	1950	1951	1952	1953
49	Texas.....	6	1,242	\$6,738,520	\$1,380,146					\$185,520	\$811,052	\$383,574		
52	Utah.....													
53	Vermont.....													
54	Virginia.....	33	4,884	33,573,889	5,209,457	\$155,700			\$137,448	922,331	3,693,978			
56	Washington.....													
57	West Virginia.....													
58	Wisconsin.....													
59	Wyoming.....													
60	Alaska.....													
70	Hawaii.....													
80	Puerto Rico.....													
81	Can'l Zone.....													
82	Virgin Islands.....													
	United States total..	437	72,052	590,118,276	75,824,239	155,700	\$12,523	\$525,616	2,166,369	18,774,176	20,203,515	21,729,228	\$9,144,936	\$3,112,176

TABLE V.—Disposition of section 608 projects in default

Code	State	Commissioner-owned projects					Mortgage notes assigned to Commissioner					Projects sold at May 31, 1954					Net profit or (loss)
		Number of projects	Number of units	Amount of mortgage	Commissioner's investment at date of acquisition	Commissioner's investment at May 31, 1954	Number of projects	Number of units	Amount of mortgage	Commissioner's investment at date of acquisition	Commissioner's investment at May 31, 1954	Number of projects	Number of units	Amount of mortgage	Cost of projects sold	Total sales price	
01	Alabama	7	122	\$719,100	\$678,119	\$697,066	1	96	\$692,000	\$676,329	\$598,405	2	128	\$750,900	\$737,433	\$715,775	(\$21,658)
02	Arizona	1	99	671,500	691,086	706,370	4	72	523,000	513,556	454,723						
03	Arkansas	11	194	1,511,000	1,490,223	1,471,149	3	44	310,000	284,017	286,699	4	76	568,000	567,914	481,111	(86,803)
04	California						20	527	3,554,973	3,399,736	3,060,463	10	208	1,504,822	1,419,970	1,423,000	3,030
05	Colorado																
06	Connecticut																
07	Delaware																
08	District of Columbia											1	594	1,140,505	925,271	936,000	10,729
09	Florida	24	1,140	7,968,300	7,875,249	8,072,970	19	1,190	8,227,700	7,880,963	7,871,361	3	48	368,900	394,123	395,621	1,498
10	Georgia	3	224	1,648,600	1,597,502	1,518,778	2	308	2,641,000	2,593,785	2,475,849	1	41	255,000	235,627	203,700	(31,927)
12	Idaho	1	104	831,600	809,556	914,274	2	302	2,473,700	2,419,068	2,457,174						
13	Illinois						1	48	415,700	386,654	404,390						
15	Indiana																
16	Iowa																
18	Kansas	1	116	890,600	881,815	857,681	4	200	1,681,944	1,555,643	1,510,749	3	57	423,400	414,068	441,250	27,182
20	Kentucky																
22	Louisiana	31	1,100	8,713,500	8,661,878	8,886,984	9	1,179	10,327,200	9,968,841	9,930,816	1	28	199,900	215,081	200,045	(15,036)
23	Maine											5	179	810,000	879,706	865,000	(14,706)
24	Maryland																
25	Massachusetts											2	157	1,200,000	1,226,894	792,015	(434,879)
26	Michigan																
27	Minnesota																
28	Mississippi	4	383	2,156,700	2,105,611	2,033,676											
29	Missouri																
31	Montana																
32	Nebraska																
33	Nevada																
34	New Hampshire	1	164	1,252,900	1,290,039	1,292,983											
35	New Jersey	4	198	1,611,772	1,563,034	1,573,218	9	812	6,729,400	6,463,222	6,434,558						
36	New Mexico																
37	New York	5	668	5,738,500	5,894,247	5,948,046	3	455	3,784,000	3,646,456	3,685,159	1	42	170,000	179,193	168,624	(10,569)
38	North Carolina	2	48	358,300	330,223	347,140	2	100	902,600	858,802	824,328	1	500	1,670,000	1,832,675	1,870,100	37,425
40	North Dakota																
41	Ohio											2	24	13,039	11,233	16,000	4,767
42	Oklahoma	9	162	1,196,000	1,160,293	1,200,477	4	220	1,880,000	1,764,532	1,692,019	2	252	1,913,000	1,822,225	1,179,000	(643,225)
43	Oregon																
44	Pennsylvania						1	24	176,932	167,648	160,222						

TABLE V.—Disposition of section 608 projects in default—Continued

Code	State	Commissioner-owned projects					Mortgage notes assigned to Commissioner					Projects sold at May 31, 1954					
		Number of projects	Number of units	Amount of mortgage	Commissioner's investment at date of acquisition	Commissioner's investment at May 31, 1954	Number of projects	Number of units	Amount of mortgage	Commissioner's investment at date of acquisition	Commissioner's investment at May 31, 1954	Number of projects	Number of units	Amount of mortgage	Cost of projects sold	Total sales price	Net profit or (loss)
45	Rhode Island																
46	South Carolina	11	580	\$3,559,989	\$3,566,283	\$3,607,669	8	471	\$2,906,853	\$2,814,681	\$2,930,726						
47	South Dakota																
48	Tennessee	1	24	188,500	173,098	173,915											
49	Texas	6	258	1,513,800	1,458,019	1,460,908	5	184	1,192,100	1,108,544	1,128,189						
52	Utah																
53	Vermont																
54	Virginia	14	1,208	8,922,468	8,802,695	8,719,351	2	228	1,806,084	1,783,093	1,588,424	3	533	\$3,110,200	\$3,110,416	\$3,331,700	\$221,284
56	Washington	1	544	4,143,600	4,104,084	4,358,685											
57	West Virginia																
58	Wisconsin																
59	Wyoming																
60	Alaska						1	37	439,500	426,971	442,633						
70	Hawaii																
80	Puerto Rico						8	1,586	9,446,200	9,233,278	9,627,290						
81	Canal Zone																
82	Virgin Islands																
	United States total	137	7,336	53,605,729	53,133,054	53,841,340	113	8,644	63,735,286	61,367,586	61,052,224	41	2,870	14,097,666	13,971,829	13,018,941	(952,888)

SECTION C. THE MILITARY HOUSING PROGRAM

Section 803 of the National Housing Act, commonly known as the Wherry Act, relates to Government financing of multifamily residential units at military installations. Mortgages amounting to \$596.2 million on 236 projects containing 74,085 units have been insured under this section of the act. It is substantially like the provisions of section 608 and was continued after the expiration of section 608 to encourage still badly needed rental housing for military personnel. This program differs from the section 608 program primarily in that a certificate is required from the military before the FHA can issue its mortgage commitment. The military approves, and in many instances initially drafts, the plans and specifications for these projects. The jurisdiction of FHA is limited largely to reviewing the judgment of the military before issuing its commitment.

Virtually all of the projects built under this program are on Government-owned land and leased at nominal rentals under long-term leases. The early projects under this program were generally on a negotiated basis. The most recent projects have been awarded upon competitive bidding, but we find that the award has not always gone to the low bidder.

Most of the abuses inherent in the section 608 program have also been found in the military housing program. Effective June 30, 1953, the Congress amended the act to require cost certification on completion of the project and a reduction of the mortgage by the amount in excess of 100 percent of the costs. One builder has testified before us that he did not regard this provision applicable to commitments issued prior to June 30, 1953, and that he intended to "mortgage out" on a project now under construction. Of course, on completion of the project the Commissioner does not have to endorse the mortgage (without which the Government guaranty is not effective) unless satisfied that there has been full compliance with the statute.

SECTION D. LAWYERS APPEARING BEFORE THE COMMITTEE

The conduct of some of the attorneys appearing before this committee has not been conducive to that standard of truth and justice which the lawyers have and must advocate. Specific reference is made to the following:

Arthur M. Chaite was formerly an attorney for the Federal Housing Administration. In recent years he represented the Ian Woodner interests which were involved before the Federal Housing Administration in projects with almost \$50 million of mortgages. Chaite was one of five former FHA people employed by Woodner. He testified that he had received fees totaling \$66,000 from the Woodner interests. But an examination of canceled checks of the Woodner Co. disclosed canceled checks, either payable to the order of Chaite or payable to cash and endorsed by Chaite, in amounts exceeding \$155,000. When confronted with these checks Chaite identified an additional \$10,000 of checks bearing his endorsement which he said were reimbursement for travel and other similar expenses and which were not reflected on his books. He also identified a check for \$25,000 which he said was given to him as agent to purchase real estate for Woodner.

There remained, however, checks aggregating more than \$50,000 which Chaite was unable to explain. Some of these checks were payable to cash, but most of them named Chaite as the payee. As to each check Chaite identified his signature as endorser of the check. In most cases the check had been cashed at the bank and currency delivered to the payee by the bank. Many of the checks were for exactly \$5,000 each.

Although identifying his signature on each check, Chaite said under oath that he had no recollection of whether he ever received the proceeds of any of those checks, who had received the proceeds of each of those checks, or the purposes for which any of the checks had been issued. His books do not reflect his receipt of the proceeds of any of those checks.

Chaite had been employed at FHA during a period of time in which Clyde L. Powell was Assistant Commissioner in charge of projects such as those in which the Woodner interests were involved. Powell's sometimes mysterious activities are discussed elsewhere in this report. The records of the Wardman Park Hotel, where Powell lived, show a number of telephone calls from Powell's apartment to the home of Chaite, five of which were in 1953. When interrogated about these calls Chaite stated under oath that he could not recall whether Powell had ever telephoned him at his home or what any such call might have been about. It may be that Chaite merely has an extremely poor memory, but it does not appear that this member of the bar contributed to this committee's search for truth and justice. It seems reasonable to assume that Chaite must have known more about that \$50,000 than he was willing to tell this committee.

George I. Marcus, an attorney from Hackensack, N. J., appeared before this committee as attorney for Sidney Sarner, a builder. Marcus approached the witness table with a bitter denunciation of this committee for revealing to the press testimony given by Sarner in executive session. He belligerently attacked the committee for newspaper articles written about his client. An examination of the newspaper articles showed on their face that they referred wholly to a statement released to the press by the Administrator of the Housing and Home Finance Agency, and that they did not refer to any information emanating from this committee.

Marcus refused to permit his client to testify unless he was first permitted to make a statement.

The culmination of Marcus' attack on this committee came when he accused the chairman of this committee of "shooting off his mouth" about supposedly innocent builders. Following this tirade Marcus' client, Sarner, took refuge behind the fifth amendment when interrogated about the rental housing project of which he had been the principal owner and with respect to which Marcus had been his attorney and adviser from the inception. Marcus was then asked questions about the executive session, to which he repeatedly replied, "I refuse to answer."

The committee later learned that Marcus was himself the sponsor of several section 608 projects.

Daniel B. Maher, an attorney in the District of Columbia, accompanied Clyde L. Powell in his three appearances before this committee. At the April 19, 1954 hearing, the first question asked Powell was, "How long have you been with the FHA?" He refused to answer the

question on the constitutional privilege against self-incrimination of the fifth amendment. The chairman then said:

The witness does not have to answer unless he cares to. We certainly are not going to force you to do so. I will say this, that we were hopeful that you would be able to assist us * * *.

No further questions were asked of Powell and no criticism of his failure to testify was made.

On leaving the hearing room Maher released to the press a statement, apparently prepared in advance of his appearance, that was in part as follows:

Mr. Powell has been further advised [presumably by Maher] that the only legal basis upon which the Houses of Congress may exert investigatory power is in the aid of the legislative function. That further, this power has been shamefully abused, and is now being abused, by certain congressional committees. He has been further told that congressional committees, instead of confining themselves to their proper function, have in effect constituted themselves as the grand inquest of the Nation, acting as informers, witnesses, prosecutors, judges, and juries; all of this under the guise of exercising a legislative function.

Mr. Powell has been further advised that, in certain instances of unrestrained congressional inquiry, the reputations of honorable men have been destroyed; and that such men are without any legal redress whatsoever because of the absolute privileges of immunity from suit for slander which attaches to Members of Congress and witnesses before congressional committees. He has been further advised that to one like himself, who values his reputation, the injury from slanderous statements and unjust accusations, to which one appearing before a congressional committee is subjected, is immeasurably more disastrous than any punishment available to the Government when imposed by a court.

Mr. Powell has been further advised that the only right which he may successfully invoke before this committee is the right to refuse to testify against himself. That being his only recourse, he has been advised to invoke it.

Protestations about Powell's innocence and his reputation should be read in the light of the disclosures about his conduct recited under "Integrity of FHA employees."

On June 29, 1954, Powell again appeared before the committee accompanied by Maher. He was asked to explain the procedures for FHA commitments under section 608; he was asked whether he had intervened in certain specific projects for the benefit of certain named builders; and he was asked about his alleged criminal record. As to each question he refused to answer under the fifth amendment. The chairman then put into the record a report by the Federal Bureau of Investigation on Powell's arrest record. Powell similarly declined to answer questions with respect to that FBI report.

At the conclusion of that hearing Maher said:

That on the occasion I originally appeared before this committee, and again today, may I state this in simple candor to each member of the committee, that I have appeared before many congressional committees, and never have I been treated with greater courtesy than I have before the Banking and Currency Committee.

Nevertheless, on July 14, 1954, Maher filed a petition with the Secretary of the Senate asking that Congress—

expel such members who have violated their oaths * * * by committing the acts heretofore set forth above.

The acts therein set forth included detailed reference to disclosure of the FBI arrest record of Powell. The petition, signed by Maher and not by Powell, contained an affidavit by Maher that he merely "verily *believed* the statements therein to be true." The petition therefore cannot be said to be a sworn petition. The petition denied

many allegations in the FBI arrest record of Powell, but with every opportunity to do so Powell has refused to challenge *under oath* any statement in the FBI record.

It has been common practice for generations to include in the record of congressional hearings reports such as an FBI record. For many purposes such governmental reports are even considered by courts of law where the rules of evidence are more severe than before congressional committees. Yet Maher's petition accused members of this committee of violating their oaths, in the conduct of the committee's investigation with respect to Powell, and specifically asked that members, presumably meaning the chairman, be expelled from the Senate for including in this record that FBI report on Powell; although Powell has not contradicted or disputed its statements.

Samuel E. Neel is general counsel of the Mortgage Bankers Association. This association includes among its members a large portion of the Nation's mortgage bankers who finance residential construction. During the course of its investigation of section 608 projects, on June 17, 1954, the Federal Housing Administration sent a questionnaire to each sponsor of such a project asking detailed information about the project, particularly the actual costs of construction.

On June 24, 1954, Neel sent a memorandum to every member of the Mortgage Bankers Association the obvious purpose of which was to suggest that the recipients of that questionnaire refuse to furnish the Government with information as to the cost of his Government-financed project. Attached to Neel's memorandum was a letter which he said one member of that association had transmitted to FHA, refusing to answer the FHA questionnaire. And Neel suggested that others might care to follow a similar course. He has admitted also being one of the authors of that letter. The memorandum and the accompanying letter are printed in the hearings of the investigation at page 3498.

Neel testified before the committee that neither the association nor any officer of the association had asked him to advise the membership whether they should, or were required to, answer the FHA questionnaire.

It is understandable how a lawyer, when asked for advice by his client, might reach the conclusion that it was in the best interests of that client not to furnish the Government with information it had requested. In this case, however, an attorney for a trade association of mortgage bankers, only one of whose members had presumably consulted the lawyer, suggested to the entire membership that they refuse to advise their Government how they had disbursed the Government-guaranteed funds that they had received. The result effected by that advice may be indicated by the fact that more than 3 months later only one-third of those to whom the questionnaires was sent had answered.

Abraham Traub is a lawyer in Brooklyn, N. Y. He represented a substantial number of sponsors of section 608 projects. The FHA-guaranteed mortgages on these projects exceeded \$106 million. In a period of 6 years Traub drew checks on his law firm to the order of cash in a total amount exceeding \$1 million. In 1 year he charged \$80,000 on the law firm income-tax return as a business expense under the heading, "Miscellaneous clients' expenses." Most of those items were represented by checks drawn to cash. The bookkeeper for his

firm testified that Traub frequently asked her to draw checks to cash in substantial amounts. The record showed these amounts were frequently \$5,000, \$10,000, \$20,000, and even larger amounts. Checks, payable to the order of cash, would be signed by Traub and a clerk would be sent to the bank to obtain the currency. The bookkeeper testified that sometimes Traub told her the purpose for which the check was to be drawn, but on other occasions he would not so advise her, and in these instances she merely charged the disbursement to overhead.

Traub also testified that he had borrowed a large sum of money, principally in cash, from a money lender now deceased. He testified that many of these cash payments were in repayment of that loan to the now deceased money lender. When it was shown that there were frequently two large cash payments in the same day, he replied that sometimes the money lender would come in in the morning for a payment and then come back again in the afternoon for another payment.

Apart from such of these sums as were allegedly paid to this money lender, and which Traub could not identify from the mass of cash payments, Traub could not explain the nature, purpose, or recipient of any of those cash payments. The volume of the cash payments in relation to the total income of Traub and the total fees of his law firm was such that they were in no sense an insignificant factor. It is difficult, to say the least, to understand his inability—or refusal—to explain these transactions.

George T. Grace is a lawyer practicing in New York City. He practiced with his brothers, Thomas, Patrick, and William under the firm name of Grace & Grace. In 1935 Thomas Grace was appointed FHA New York State director, a position he continued to hold until 1952. Yet after his appointment to that full-time Government job his name still appeared on the stationery and on the door of the law firm of Grace & Grace.

George Grace testified to receiving \$291,000 in fees for handling some 64 projects at FHA, and to an additional \$100,000 in other income connected with FHA matters. He also testified that during the period in which he received that money he paid \$46,700 to his brother Thomas. In 2 years, while Thomas was State director, the brothers filed a partnership return showing him as an equal partner in the firm and distributing to him in each year \$19,000 of partnership profits.

George Grace kept at least two different sets of records, each of which was incomplete. Many fees received by George were never deposited in the firm bank account, never appeared on the firm books, and were deposited only in one of his personal checking accounts. On other occasions the fee was deposited in his personal account and at a subsequent date taken into the firm's account either in whole or in part. The record does not indicate that either George or Thomas Grace testified fully or completely with respect to their many financial dealings in FHA matters.

Marshall Diggs, a lawyer practicing in Washington, D. C., testified that several clients were brought to him by Richard McCormack (not a lawyer) in connection with rental housing projects under section 803 of the Housing Act. Diggs testified that he did not know what representations McCormack had made to those prospective clients to

obtain their representation. Each client was charged \$5,000 for work presumably in connection with obtaining an FHA commitment. Diggs paid half of the fees to McCormack (although McCormack denied receiving the money as fees and claimed the payments were loans, presumably because he had failed to include them in his income-tax returns). None of these clients ever received an FHA commitment on any matter on which Diggs worked.

The presence of counsel at a congressional hearing is to advise the witness of his rights and privileges. It is not that the lawyer may testify for his client or seek to change the course of the congressional inquiry. On occasions lawyers representing witnesses before the committee have sought to do so. In one instance the lawyer sought to answer many of the questions asked his client. Once when he was advised that it was the answer of his client that was desired, he turned to the client and said, "Tell him * * *." The client replied, "I can't say that."

The transcript reveals 1,386 lines of questions asked this witness and 282 lines of statements by the attorney that were not asked for or required.

The attorney was not under oath and did not have personal knowledge of the facts, but he consistently insisted on answering questions for his client—which his client, who was sitting next to him, necessarily was in a better position to answer of his own personal knowledge.

We do not otherwise identify this lawyer for it is clear that he participated in no personal wrongdoing and intended nothing improper. However, his conduct did necessarily impede the search for truth and justice by this committee and could well have caused members of this committee, or its staff to lose either their patience or their equilibrium.

SECTION E. THE CONDUCT OF THIS INQUIRY

It has been the purpose of this committee to conduct an impartial, thorough, and searching inquiry of the administration of the National Housing Act, but with full respect for the rights and privileges of every witness appearing before the committee. A set of rules for the conduct of the inquiry was adopted by the committee and adhered to with respect to every witness. These rules of procedure are:

Resolved by the Committee on Banking and Currency of the United States Senate that the following rules governing the procedure of the committee are hereby adopted:

1. A subcommittee of the committee may be authorized only by the action of a majority of the full committee.
2. Unless the committee otherwise provides, one member shall constitute a quorum for the receipt of evidence, the swearing of witnesses, and the taking of testimony, and the chairman of the committee or subcommittee may issue subpoenas.
3. No investigation shall be initiated unless the Senate or the full committee has specifically authorized such investigation.
4. No hearing of the committee or a subcommittee shall be scheduled outside of the District of Columbia except by the majority vote of the committee or subcommittee.
5. No confidential testimony taken or confidential material presented at an executive hearing of the committee or a subcommittee or any report of the proceedings of such an executive hearing shall be made public, either in whole or in part or by way of summary, unless authorized by the committee or subcommittee.

6. Any witness subpoenaed to a public or executive hearing may be accompanied by counsel of his own choosing who shall be permitted, while the witness is testifying, to advise him of his legal rights.

7. If the committee or a subcommittee is unable to meet because of the failure or inability of its chairman to call a meeting, or for any other reason, the next senior majority member of the committee or the subcommittee, who is able to act, shall call a meeting of the committee or the subcommittee within 15 days after the receipt by the Secretary of the Senate of a written request, stating the purpose of such a meeting, from a majority of the members of the committee or the subcommittee.

8. Committee or subcommittee interrogation of witnesses shall be conducted only by members and staff personnel authorized by the chairman of the committee or subcommittee concerned.

In the course of our hearings 9 witnesses, 3 of them former FHA officials, availed themselves of the constitutional privilege against self-incrimination. On each occasion the witness was advised that it was his privilege to decline to answer questions that might tend to incriminate him. No witness was urged to testify when he expressed the opinion that by doing so he might thereby incriminate himself.

While wholly respecting this constitutional privilege, the committee was nevertheless deeply disappointed when a Government official, who for almost 20 years had administered a housing program involving more than \$8 billion of Government commitments, claimed the privilege of self-incrimination against all questions asked of him. Those questions which related specifically to his official conduct as Assistant FHA Commissioner. We do not question his legal or even his moral right to have done so; we merely express keen disappointment at a former high Government official having done so. Those who exercise a public trust, particularly over a long period of years and with respect to such large sums of money, owe the people who have been their employer an accounting of their conduct.

There was also testimony before this committee of 16 former FHA officials receiving money or property under circumstances shown by the testimony to appear to be in violation of the conflicts of interest laws and the corresponding regulations of FHA.

We are grateful for the cooperation received from the executive departments concerned with this inquiry, particularly the Federal Housing Administration, Housing and Home Finance Agency, Internal Revenue Service, and the Department of Justice; and to the General Accounting Office and the Federal Trade Commission for the valuable staff assistance they made available to the committee.

PART VIII. SPECIFIC CASES ILLUSTRATIVE OF THIS INQUIRY

Throughout the discussion in this report we have frequently referred to particular cases as illustrative of specific practices. The Glen Oaks case, the largest single windfall in a section 608 project, and the Levitt brothers (Levittown, N. Y.) case, the largest single windfall in a section 603 project, have been referred to in the income-tax discussion.

In the paragraphs that follow, there are discussed specific aspects of pertinent cases that have not heretofore been considered, although the projects may have been discussed in other parts of the report.

SECTION A. IAN WOODNER PROPERTIES

Ian Woodner is an architect who utilized section 608 of the Housing Act to become a millionaire in the postwar period with apparent disregard of the statutory and regulatory limitations governing such projects. Woodner testified that at the end of World War II he was worth between \$20,000 and \$40,000. In the succeeding 5 years he built approximately \$50 million worth of real-estate projects financed wholly by FHA. He used a multiplicity of corporations to achieve this purpose and pyramided his finances by moving assets from one corporation to another like checkers on a checkerboard.

Shipley Park Corp. was his top holding company. However, it never assumed the obligation of any FHA mortgage. This liability was undertaken only by subsidiary corporations. At one time Woodner had 25 such subsidiary corporations, in 22 of which the only capital stock ever issued was in the amount of \$1,000. In 7 others the common stock was \$1,000. The total capital stock in the \$10 million Woodner "hotel" project in Washington was only \$3,000. Woodner frequently utilized the device of purchasing land in his own name with funds of the corporation, then leasing the land to a subsidiary company which obtained an FHA-insured mortgage on the leasehold, while he obtained a mortgage on the land for an amount in excess of its cost.

Woodner built 24 section 608 projects in which the total mortgage proceeds (including the proceeds of mortgages on the land in leasehold cases) were \$42 million and the total costs of the properties as shown by his books (including the cost of the land in each case) were \$680,000 less than the mortgage proceeds. A cursory examination of his books reveals hundreds of thousands of dollars of items improperly charged as costs. The true costs are no doubt several million dollars less than those shown on his books.

An examination of Woodner's accounts disclosed many checks issued to cash, and for which currency was obtained at the bank, but which Woodner could not explain. As noted elsewhere in this report more than \$50,000 in checks to an ex-FHA employee, Arthur M. Chaite, were issued by the Woodner Co. Most of these checks were

to the order of cash and for round sums such as \$5,000. Chaite's endorsement appears on each check and the bank's stamps indicate that someone received currency in that amount. Neither Woodner nor Chaite could recall who received those funds or for what purpose they were disbursed.

Woodner retained no less than five former FHA employees. Many trails lead from Woodner to Powell, but the testimony discloses no funds actually paid to Powell by Woodner.

The extent to which Woodner juggled funds is illustrated by the financial statements accompanying his applications for FHA-insured mortgages. In most of these applications Woodner's wife, brother, and sister were listed as cosponsors. None of them had any substantial assets but it was apparently necessary that their financial statements indicate to FHA that they were financially responsible people. Immediately prior to the dates of those financial statements Woodner would withdraw large sums of cash from the corporate bank accounts and cause them to be deposited in his own account and in those of his wife, brother, and sister. These bank deposits would then be shown as assets in their financial statements.

Woodner was asked if these sums were gifts, loans, or payments, but he consistently refused to answer. His difficulty seemed to be that he could not call them payments for services or dividend distributions because none of the funds were reflected in the recipient's income-tax returns; and he could not call them loans because the alleged financial statements disclosed no corresponding liabilities. These funds then belonged to the corporation which at the time had many unpaid bills. Subsequently the funds were returned to the corporation. Woodner's applications to FHA for mortgage commitments were not any more accurate than his financial statements.

At the request of this committee, General Accounting Office auditors examined the books of the Woodner "hotel" project in Washington, D. C. These auditors found disbursements of \$285,000 for which the supporting data were missing from the files. Those disbursements included: \$87,000 in fees for detective work in connection with Woodner's divorce case; a total of about \$50,000 to several law firms for legal services in connection with his marital problems; and \$30,000 for alleged services by a former Member of Congress in connection with a project that did not exist and if ever contemplated never attained any stage of actual materiality. Many of the items included in those disbursements could not be identified by Woodner. One small item of \$500 was for a watch "they" bought for Woodner.

The General Accounting Office's accountants found millions of dollars of transactions never reflected on Woodner's books. Journal entries transferring several million dollars in accounts were made in New York by the firm's auditors, Marshall Granger & Co., but never reflected on the Woodner books. One of these journal entries gave Woodner personally a credit of \$281,184 for the return of an "advance" which in fact had been advanced by the corporation. Other entries included giving Woodner credit twice for the return of an advance of \$117,000 which he presumably had once made.

Since the end of the war the corporations had issued checks payable to Woodner in amounts totaling \$1.4 million. But his salary was only \$60,000 in that entire period, his profit and loss account showed a loss of \$38,000, and no dividends were paid by the corporation.

The corporation also paid personal bills of Woodner in amounts totaling \$342,716. Journal entries, most of which were reflected only in the auditors' papers in New York and not on the books of the corporation, transferred more than \$2.3 million between Woodner and the corporation. Finally, these entries gave Woodner credit for alleged expenditures of large sums of money for such purposes as "promotion." They did not reveal, and Woodner claimed not to remember, who promoted what.

When the section 608 program expired, Woodner moved over to military housing under section 803 of the act. He obtained commitments of \$6.4 million for a rental housing project at Chanute Air Field, near Rantoul, Ill. Woodner's sponsoring corporations entered into contracts with Woodner's construction company for the construction of those buildings. The construction contracts required the construction company to complete the buildings for the contract price.

It was customary for FHA to require a completion bond to insure the completion of such projects. On December 14, 1950, Max Woodner wrote the FHA director at Springfield, Ill., asking that he be permitted to give his personal performance bond. The letter concluded:

After reconsideration, if you still feel that my financial status is not sufficiently clear to merit the acceptance of an indemnity agreement executed by myself, I would like to suggest that you forward the matter to Mr. Clyde Powell, Assistant Commissioner for Rental Housing of the Federal Housing Administration, asking for assistance in reaching a decision satisfactory to both you and myself.

Max was the brother of Woodner and a \$75-a-week employee of Woodner's company. He had no assets except such as Woodner would from time to time place in his name for the purpose of making alleged financial statements.

On January 8, 1951, Powell overruled the local State director. Powell held Max inadequate as an indemnitor, but directed that the indemnity agreement be approved if Ian Woodner and his sister Beverly became additional guarantors. The assets of all the Woodners consisted largely of the assets in the construction company whose obligation to construct the buildings they were now guaranteeing.

Before the project was completed the separate corporations that Woodner had created for that purpose ran out of funds. Woodner urged the Air Force to loan him money to complete the projects, saying that if they did not do so there would be a 2-year delay in construction resulting from the necessity of an FHA foreclosure of the property. The Air Force then loaned the Woodner company \$615,000 with which to finish the project. Shortly after the project was finished that loan went into default. The Air Force has since taken over possession of the property and suit is now pending to recover the loan. Had Powell not waived the requirement for a proper indemnity bond this default would not have occurred. We have serious doubts of the authority of the Air Force to have made that loan and certainly Woodner's construction company should not have been relieved of its liability to perform its contract.

When the Chanute property became involved in financial difficulties the remaining available funds were placed in an escrow for payment of debts of the project. The General Accounting Office's examination

of the Woodner books discloses four invoices approved by Woodner for payment, which were paid out of the escrow funds, and the proceeds thereupon returned to Woodner by the recipients. These 4 invoices were by his accountant, his insurance man, and 2 of his lawyers. The funds apparently thus siphoned out were approximately \$35,000.

This committee did not get from Woodner all the facts with respect to the Woodner projects. The testimony does, however, show that many irregularities occurred.

SECTION B. SHIRLEY-DUKE APARTMENTS

The Shirley-Duke project in Arlington, Va., includes 2,113 rental units in 200 buildings. The project was one of the more fantastic frauds perpetrated under the section 608 program. Six corporations were involved. Each had a capital stock of \$1,000. Don A. Loftus, who made fabulous profits in other section 608 projects, appears to have been the guiding genius in this project but it was denied that he had any financial interest in the project.

The principal sponsors were Herman W. Hutman, Earl J. Preston, and Byron Gordon, Jr. Each placed himself on the payroll of one or more of the corporations at salaries of \$20,000 each per year from the time the corporation was created. The only capital of the six corporations was \$6,000. We find no indication that anyone other than Investors Diversified Services ever advanced any funds or furnished any additional capital for the construction of the project.

FHA estimated the cost of the project at approximately \$15.3 million and insured a mortgage for \$13.8 million. The actual cost was approximately \$11.7 million, including a fee of almost \$1 million to IDS for financing the project (in addition to interest paid to it on the funds from time to time loaned). In advance of filing the FHA application, IDS advanced \$5,000 for an option on the land and it subsequently furnished the remaining funds necessary to purchase the land. This land was acquired for the sole purpose of constructing this FHA project.

The contract between these sponsor corporations and IDS was never disclosed to FHA. Contrary to FHA regulations and the requirements of the act of Congress, that contract showed that the parties would build the project for substantially less than the proceeds of the FHA mortgage and that IDS would furnish all the funds necessary to finance the construction.

The sponsors were repaid their \$6,000 investment in a matter of weeks out of their salaries at the rate of \$60,000 a year. On completion of the project there was distributed to the sponsors dividends of \$2.2 million on that stock for which they paid \$6,000. That distribution, in addition to the fees paid IDS, was part of the mortgage proceeds over and above the total costs of the project, including the land and interest on the funds advanced during construction.

We have referred elsewhere in this report to the false statements in the application, the impropriety of the IDS contract, the extent to which FHA approved inflated rentals resulting from an appraisal almost 50 percent above actual costs, and finally, that FHA granted a rental increase after completion of the project. That rental increase was specifically approved by Powell.

SECTION C. PARKCHESTER—KAPELOW

Paul Kapelow and Louis Leader, brothers-in-law, entered the construction business in Memphis following World War II. In 1948 they migrated to New Orleans to climb aboard the section 608 bandwagon. Their entry into the field was financed by E. H. Crump & Sons of Memphis, Tenn., who supplied some of the money to purchase the land for their Parkchester development in New Orleans and who were paid \$300,000 for their assistance in the financing of that project. This financial assistance was undertaken through a corporation expressly organized for that purpose under the name of Mississippi Valley Mortgage Co. with capital stock of \$10,000. The Kapelow group subsequently bought that stock from the Crump group for \$383,000, under circumstances giving the sellers a long-term capital gain.

The Parkchester property, as noted elsewhere in this report, received an FHA insured mortgage of \$10.8 million. Construction costs were somewhere between \$1.7 million (the sponsors' figure) and \$3.5 million (the FHA figure) below the mortgage proceeds. After siphoning out the excess mortgage proceeds, the Kapelow group sold this \$10.8 million property for \$5,000 (subject to the mortgage) under a contract calling for additional payments over a period of time of \$110,000.

After collecting rentals of almost \$1 million that buyer defaulted on the mortgage and the property is now being foreclosed. In their computations of costs the sponsors charged as "overhead" costs against this property approximately \$700,000, including such items as entertainment, travel expense in very substantial figures, and salaries to themselves.

The Kapelow group also sponsored other section 608 projects, including the Claiborne Towers project in New Orleans, a project in Natchez, Miss., in which their books show a windfall of \$212,000, and a project in St. Louis in which their books reflect costs in excess of the mortgage commitment. In the 4-year period following their removal to New Orleans and their entry into the FHA program, the financial statements of Kapelow and Leader show an appreciation in their assets from \$600,000 to \$7 million. This was apparently achieved in such a manner that neither they nor the corporations paid income taxes on their gains. No dividends were paid on the stock of their construction company, Shelby Construction Co., which owned the stock interests in the affiliated corporations, and the salaries of Kapelow and Leader were very modest. Yet in that 1948 to 1952 period they found funds to buy out a third partner for \$315,000 (whose original investment had been \$10,000), for Kapelow to build a \$354,000 home (actual cost to the construction company which built the home and charged it to Kapelow on its books), and to make investments in other projects achieving them very substantial profits (including a shopping center in the Parkchester development which they still own).

SECTION D. FARRAGUT GARDENS—KAVY-HIRSCH

Farragut Gardens is a rental housing project of 2,496 units located in Brooklyn, N. Y. A great deal of mystery surrounds this project. The committee has never been able to learn all the facts about the matter. Morris Kavy was the principal promoter of the project. He was involved in an automobile accident shortly after the investigation began and the committee was advised by doctors that he would be unable to appear as a witness. Nathan Neitlich and Louis Failkoff were the auditors who presumably were acquainted with all of the costs of the project charged on the books of the project. The committee was advised by doctors that neither auditor was physically able to appear at public hearings. Abraham Traub was the attorney for these sponsors. As previously noted in this report, Traub was unable to identify the many transactions involving cash shown on his books to have exceeded a million dollars over a period of 6 years. A number of those currency transactions which Traub could neither explain nor identify related to this project.

Alexander P. Hirsch, Henry Hirsch, and Louis Benedict were associated with Kavy in this project. Each owned one-fourth of the stock of Nostrand Realty Corp. Nostrand purchased property in Brooklyn, on part of which this project was built, for a total of \$1.6 million. Subsequently they sold a part of the tract to the city of New York for \$440,000 and another part to private buyers for \$285,000. Their cost of the remaining portion of the tract, on which this project was built, was \$875,000. Nostrand created five corporations, each bearing the name Farragut Gardens, which received commitments from FHA for the projects described as Farragut Gardens No. 1 through 5. The FHA commitments were for \$21.9 million. These commitments were for buildings to be built on leaseholds owned by the five Farragut Gardens corporations. In connection with its mortgage commitment FHA valued the land, still owned by Nostrand, at \$1.9 million. This valuation permitted the sponsors to obtain a conventional mortgage on the land of \$1,732,400.

The 5 Farragut corporations then entered into construction contracts with 5 corporations named, respectively, Reston Corp. Nos. 1 through 5. Each Reston corporation built 1 of the Farragut buildings at cost plus a fee of \$40,000. The mortgage proceeds exceeded total construction costs by \$3.6 million. The cost of the land was the only investment made by the sponsors other than the capital stock in the five Reston corporations. (The capital stock of the five Farragut corporations was paid for by Nostrand.) The capital stock in each of the Farragut and Reston corporations was \$1,000.

After the return of their entire investment in the land, the promoters had a "profit" of about \$700,000 from the proceeds of the mortgage covering the land. This money remains undistributed by Nostrand. They also have a "profit" of \$200,000 in the five Reston corporations which also remains undistributed. They were prompt, however, to distribute to themselves \$3.2 million from the Farragut corporations out of the excess mortgage funds after the payment of all their costs for the project. Presumably, this prompt distribution

resulted from the fact that the Farragut corporations alone were liable on the FHA insured mortgage debt.

FHA estimated the cost of the project at \$24 million. George M. Halk, an appraiser for the Dry Dock Savings Bank, which owns 3 of the 5 mortgages, testified that the bank's appraisal of construction costs was \$15.4 million. The sponsors claimed that the actual costs were \$18.1 million but this committee has never been able to verify those costs. The FHA estimate was 50 percent in excess of the bank's estimate of costs and 33 percent in excess of the sponsors' claimed actual costs.

A committee staff employee with considerable building inspection experience testified, after an examination of the project, that he doubted if the project would last the life of the mortgage. There was considerable evidence of poor and shoddy construction. The only principal from whom the committee was able to receive any testimony was Alexander P. Hirsch who knew almost nothing about the project except to concede that the total "windfall" exceeded \$4 million and that an excess of \$3 million had actually been distributed to himself and his partners.

SECTION E. PAGE MANOR—MUSS, WINSTON, ET AL.

The Page Manor housing project was among the first constructed under the section 803 military housing program. The enterprise was passed from hand to hand and proved profitable for everyone involved. The project was apparently conceived by two enterprising Washingtonians, William Ready, a former Army colonel, and Thurry Casey. They "brought" the idea for this housing project in Dayton, Ohio to Link Cowan, a Shawnee, Okla. builder.

Cowan agreed to pay Ready 5 percent of the net profits on any construction project they might build. Ready, in turn, made a private deal with Casey. An option was taken on land adjacent to Wright Field in Dayton which was exercised when it appeared that the project might be completed.

Cowan applied to FHA for a commitment which was issued to him on December 8, 1950, covering insured mortgages of about \$15 million. The project was to be built in four sections. There was a separate commitment for each section. These commitments were based on plans and specifications which Cowan had filed with FHA. After filing the applications but prior to the issuance of the FHA commitment, Cowan felt the need to associate himself with others who could assist in financing the project. He then took in as partners Clint Murchison, Jr. and John D. Murchison of Dallas, Tex. Cowan testified that his reason for bringing in the Murchison brothers was that—

I had limits on my finances * * * I certainly did not know anything about housing, and in order to be able to carry on with the deal, it was necessary that I get a partner.

Subsequently Cowan and Murchison, "analyzed the whole situation; we figured we had a bad job and it would be impossible to go ahead with the thing," and Murchison suggested they bring in David Muss whom he had met in San Antonio.

Muss proved much more astute than Cowan or Murchison in promoting an FHA rental housing project. He formed Airway Construc-

tion Co. in which Cowan, the Murchison brothers, Muss, and Norman K. Winston (New York associate of Muss) each owned a one-fourth interest. The land which Cowan had bought for \$65,000 was then sold to Airway for \$165,000 (at least part of the increment was to reimburse Cowan for his expenses.)

Muss decided to "revamp" the entire picture. He filed amended applications with FHA and increased all of Cowan's estimated costs. He even increased the estimate for the land. Cowan testified concerning the plans which FHA had already approved for his \$15 million project, "that after learning what I have learned about rental housing, our plans weren't any good and in a sense they were impractical." Muss' revised plans estimated the costs at more than \$2 million above the estimated costs presented by Cowan and FHA issued an amended commitment to insure mortgages in the total amount of \$17.3 million. Actual costs turned out to be very close to the original Cowan estimates.

In spite of the substantial increase in the commitments, the plans prepared by Muss called for less expensive buildings. The Cowan plans were for a brick building with a gabled roof, while the Muss plans were for a stucco building with a flat roof. The savings accruing from these changes were at least in part offset, however, by the larger rooms provided for in the Muss plans.

The increased estimate in costs in the Muss applications raised the architect's fees by approximately 25 percent, increased legal expenses by 200 percent, increased the cost of utilities by 50 percent, and even increased the estimated cost of landscaping by 50 percent. In fact the architect's fee actually paid was less than one-third of Cowan's original estimate and only about 20 percent of the Muss estimate. To a lesser extent, this was also true of other costs, with the result that when the project was completed, there was not only no investment by the sponsors, but there was \$908,000 of the mortgage funds available for distribution to the shareholders. Each stockholder then borrowed from the corporation approximately one-fourth that amount. Muss testified that the money was distributed as a loan rather than as a dividend because, "we have been waiting on a decision from the courts, the Tax Court, in cases like Gross-Morton's."

Muss also introduced a multiplicity of corporations to the project. The construction was by Airway Construction Co. The project itself was owned by 4 corporations known as Page Manor, sections 1 through 4, respectively. Each of those corporations was in turn owned by Page Manor Management Co., whose capital stock is \$800. Each of the sponsors put up \$200 for his one-fourth interest in that corporation. Cowan subsequently settled his "5 percent" contract with Ready by the payment of \$37,000, out of which Ready paid \$10,000 to Casey.

Muss did not confine to the Page Manor project the abilities that permitted him to transfer what Cowan thought was a "hopeless" situation into a windfall of a million dollars.

Muss, Winston, and others built four rental housing projects in San Antonio, Tex., at the Mitchell Air Force Base. The proceeds of those FHA insured mortgages were \$13.3 million and exceeded the total costs of the project by \$965,000. A separate corporation was formed for each of the four sections of the project. The first section was built under section 608 of the Housing Act. The remaining portions were built under section 803 of the act. The common stock in each

of these corporations was \$3,000, of which \$1,550 was contributed by Winston, \$1,000 by Muss, \$300 by Louis H. Kaplan, and \$150 by Henry W. Penn. Winston held half his interest as agent for a Swiss trust named Mika Stiftung. The Swiss corporation contributed about \$3,000 to the venture and received a windfall dividend distribution of \$310,000. Manifestly Winston and Muss did not need those financial resources of the Swiss trust, and it is not claimed that this trust situated in Switzerland made any other contribution to the project.

Winston, Muss, and Mika Stiftung promoted Northbridge Cooperative in New York City receiving an FHA mortgage commitment under section 213 of the act for \$10.4 million. Before construction of the project had even started they sold their FHA commitment to other contractors for which they were paid \$843,000.

Muss and his associates are now engaged in a \$14 million project at Limestone, Maine, under section 803 of the Housing Act. The project has not been completed but Muss testified that he expected the mortgage proceeds would exceed total costs. The capital stock of the corporation engaged in constructing that project is \$10,000 and is owned by the Airway Co. The Airway Co., in turn, has capital stock of \$10,000 of which 50 percent is owned by Tecon Corp., 25 percent by Mucon, Inc., and 25 percent by First Garden Bay Manor, Inc. The stock of Tecon is owned by the Murchison brothers. The stock of Mucon is owned by Muss and members of his family. The stock of First Garden Bay Manor is owned by Winston and members of his family.

The Murchisons also constructed projects under sections 803 and 903 in Texas, California, and Idaho with FHA mortgages of over \$23 million.

Winston, Muss, and Murchison have additional projects at Great Lakes, Ill., involving FHA mortgages of \$13 million.

Winston, in association with friends and relatives, built 9 section 608 projects in the New York City area with aggregate FHA insured mortgage proceeds of \$6.5 million. He enjoyed windfalls in 7 of the 9 projects. The net amount by which mortgage proceeds exceeded all costs in all of the projects was \$655,000.

This group received over \$95 million of FHA insured mortgages, and to date have no investment in the projects they have completed, and have received substantial windfalls.

SECTION F. LINWOOD PARK—SIDNEY SARNER

The Linwood Park section 608 housing project was owned by 13 corporations, each of which had a capital stock of \$1,000. Sidney Sarnar and Ralph J. Solow each owned half the stock in those corporations. FHA insured mortgages on the project for \$8.9 million. This was \$2.5 million in excess of the total costs of the project.

Sarnar and Solow quarreled during the early stages of construction and Sarnar bought out Solow's interest for \$1,200,000. This was half the ultimate windfall leading to the conclusion that well before construction was completed the parties knew the full extent of their ultimate windfall.

The remaining funds in excess of the mortgage proceeds were used by Sarnar to construct a shopping center which is not covered by the FHA mortgage.

When interrogated at a public hearing concerning this project, Sarnier declined to answer any questions on the privilege of the fifth amendment against possible self-incrimination.

SECTION G. CHARLES GLUECK—MID-CITY INVESTMENT Co.

Charles Glueck was the principal stockholder and president of Mid-City Investment Co. of Gary, Ind. Mid-City was active as a mortgage broker for section 608 projects in Indiana and Glueck engaged in questionable business relations with then FHA State Director Earl Peters.

In 1947 Peters promoted the construction of a section 608 project in Fort Wayne, Ind. Glueck was to put up \$7,500 for one-third of the stock; Peters was to put up \$7,500 for one-third of the stock; and Allen & Kelley, architects at Indianapolis, were to draw the plans and specifications for the other one-third of the stock. Allen & Kelley drew the plans but did not receive any stock and were not paid for their work. Glueck advanced \$7,500 and was initially issued one-half the stock of the corporation.

After the project was completed Glueck gave this stock to Peters. Glueck initially testified before the committee that Peters reimbursed him for the money that Glueck had advanced for this project. Subsequent investigation disclosed, however, that reimbursement to Glueck came, not from Peters, but from the proceeds of the mortgage premium.

In March 1951 Glueck purchased approximately \$6,000 of furniture for adjoining apartments that he and Peters were to occupy in Sherwood Apartments, a section 608 project then being completed in Indianapolis. This furniture was delivered in the summer of 1951 to the Peters and Glueck apartments respectively. On January 14, 1952, Peters was fired by FHA for participation in the Fort Wayne project. The following day the furniture dealer was notified by Glueck's office that Peters, and not Mid-City Investment Co., should be billed for the furniture delivered to the Peters apartment.

Glueck did not confine his interest in FHA personnel to the State director. One winter Glueck, who was in Florida, was joined by his wife and Mr. and Mrs. James Swan. Swan was then an FHA official. Glueck testified that he did not know whether Mrs. Glueck paid for the transportation to Florida for the Swans, or whether it was paid for by Swan. But subsequently Glueck admitted that he had paid the expenses of Mr. and Mrs. Swan.

Glueck's FHA activities paid dividends. In addition to acting as mortgage broker in a great number of FHA projects in Indiana, he also appears to have "sold" commitments. Glueck purchased for \$40,000 the land in Gary on which the Major Apartments project was built. He transferred that land to a corporation, obtained an FHA commitment for a section 608 project, then sold the stock in the corporation for \$350,000. The corporation had no assets other than the land and the commitment. The transaction was actually arranged before the application for a commitment was filed, but subject to Glueck being able to obtain the FHA commitment.

In the Steel City Village project in Gary, Glueck sold the land to a section 608 project for \$50,000 plus half of the stock in the sponsoring corporation. This land was part of a substantially larger tract which had cost Glueck \$15,000.

The testimony of Glueck's dealings on FHA matters was a story of concealment of the facts, sharp dealings, and the apparent use of influence to achieve big profits.

SECTION H. INVESTORS DIVERSIFIED SERVICES

Investors Diversified Services financed a substantial number of FHA-insured projects. In five of these projects, however, Investors Diversified Services obtained from the sponsors a share of the profits, in addition to interest on its money loaned, in exchange for unusual "services" extended by IDS.

In the Shirley-Duke case IDS furnished the funds with which the sponsors acquired the land and paid every other item of expense in connection with the construction of the project. The sponsors used none of their own funds. A contract between the sponsors and IDS that was never disclosed to FHA shows that prior to the filing of the FHA application it was understood by both the sponsors and by IDS that the cost of the project would not only be well below the sponsors' estimate but also considerably below the FHA insured mortgage.

The FHA applications were prepared in the IDS office under the guidance of an IDS local manager who ultimately received an interest in the project. FHA regulations limited financing charges to 1½ percent, but IDS collected 6½ percent in addition to a long-term management contract. It was claimed that the FHA regulations limiting financing charges were not applicable because FHA did not insure the construction advances but insured only the permanent mortgage on completion. However, the IDS contract shows that all of its advances were to be repaid out of the proceeds of the FHA insured loan. The contract even provided that IDS would be paid its \$900,000 fee immediately upon the signing of the contract. It then loaned the sponsors the money with which to pay the fee and received not only repayment of that loan from the FHA mortgage, but also interest on the money it advanced for the payment of its own fee. IDS colluded with the sponsors of Shirley-Duke project to evade the purposes of section 608 of the act and the regulations of FHA.

In the Shirley-Duke project, IDS received a total of \$1,184,684 in addition to interest on the funds it had advanced. On this sum, \$889,990 was a "compensatory fee" for financing the project, \$121,619 was paid as settlement of a long-term management contract and \$173,075 as the premium on the sale of the mortgage. IDS was so careful not to expose itself to any undue risk that it not only required an FHA commitment to insure the mortgage before it advanced any funds, but it also required a commitment from Federal National Mortgage Association to purchase the FHA-guaranteed mortgage.

IDS similarly financed the Cleveland Parkway Gardens project in Cleveland, Ohio, the Carson Homes project in Los Angeles, Calif., the Lakewood Park project in Los Angeles, Calif., and the Charleston Park project in Las Vegas, Nev.

In the Parkway Gardens project, IDS received fees of \$570,300. In the Lakewood Park project, IDS and a wholly owned subsidiary received fees totaling \$1,321,790. In the Carson Park project, IDS received fees of \$1,490,010. The Charleston Park project has not been completed and the amount of its fees are not yet known.

In those four projects that have been completed, IDS has received approximately \$4.5 million in fees for financing projects with FHA insured mortgages of \$55 million (*in addition to interest on its money*). Repayment of its advances was virtually assured out of the proceeds of the FHA insured mortgages. The total FHA mortgages in which IDS participated exceeded \$200 million.

SECTION I. DR. DANIEL GEVINSON

Dr. Daniel Gevinson was a practicing dentist in the District of Columbia until 1950. In 1947 he became aware of the advantages of section 608 of the Housing Act. He estimated his then net worth at \$50,000. Six years later, he was the owner of all or a substantial interest in 6 section 608 projects with mortgages of \$13.4 million. His personal assets were then \$2 million. Gevinson had given up dentistry by 1950 for the more lucrative business of section 608 housing. He was a frequent visitor to Powell and on at least one occasion Powell overruled local FHA officials to approve a project for Gevinson in Texas.

On one project Gevinson gave stock to the son of the builder to persuade him to interest his father in financing the construction. In another project Gevinson received a \$6,000 "kickback" from the contractor for giving him the job.

Dr. Gevinson's projects are in Texas; Washington, D. C.; Pennsylvania; and New York.

SECTION J. STONE RIVER HOMES—EDWARD A. CARMACK

Stone River Homes is a rental housing project at Smyrna, Tenn., constructed under section 803 of the Housing Act. It illustrates a promoter's ability to acquire such a property with no investment.

A group of local people, including Joseph W. Hart and Bolten McBride, purchased 384 acres of land adjacent to the Stewart Air Force Base for \$60,000. Hart and McBride applied for a commitment from FHA for a rental housing project to be built on 120 acres of that tract. While the application was pending, Edward A. Carmack made arrangements to acquire for \$319,000 the 120 acres proposed to be used for the project. He also acquired all the stock of Stone River Homes which had previously been created to sponsor such a project. FHA subsequently issued a commitment for \$4.8 million.

Carmack entered into an agreement with Shelby Construction Co., of New Orleans, under which Shelby agreed to purchase that 120 acres of land for \$319,000, donate the land to the sponsoring corporation, and build the project (including the payment of all fees, interest, and taxes) for the amount of the FHA mortgage commitment. Shelby also agreed to pay a penalty that ultimately amounted to \$90,000 for any delay in construction. Carmack received \$20,000 of the penalty money and Hart and McBride received the remaining \$70,000, although they then had no interest in the project. The \$20,000 received by Carmack was \$12,000 in excess of all the expenses he had incurred in connection with the project.

Shelby, for the amount of the mortgage commitment, bought the land, built the building, paid the FHA fees, the interest and taxes during construction.

When the project was completed, Carmack was the owner of a large rental housing project in which he had no investment and had never advanced any funds other than an estimated \$8,000 for travel and miscellaneous similar expenses. Hart, McBride, and their associates in the land profited to the extent of \$330,000.

Air Force personnel residing in the project now pay rents determined to be adequate to pay the interest and principal on the mortgage. They were "requested" by the commanding officer of the base to move into and fill that project.

SECTION K. SAMUEL RODMAN

Samuel Rodman was the principal sponsor of Atlantic Gardens, a section 608 project in the District of Columbia. The project contained three sections. On one section of the project Rodman testified the mortgage proceeds exceeded total costs by "about \$50,000 to \$60,000." On a second section of the project he testified the mortgage proceeds exceeded the total costs by "probably another \$75,000." Rodman and his wife Bella had owned the land on which the project was built and made a substantial profit on the sale of the land to the sponsoring corporation. Rodman also testified that his wife was a stockholder in the section 608 corporation. Their total "profits" on the construction exceeded \$300,000.

Bella Rodman had claimed the privilege against self-incrimination when previously interrogated before the House Un-American Activities Committee on her Communist Party activities. Rodman had similarly claimed that privilege with respect to questions asked him about Communist activities, but did deny membership in the party.

Rodman was asked before this committee if he had ever contributed any of the funds made on those section 608 projects "to any so-called un-American activities organization of any kind in the United States." His attorney objected to the question. Later he was asked whether he had "ever contributed to any communistic organizations or causes." His attorney again objected and Rodman answered, "Wouldn't I be a fool not to use my constitutional rights to refuse to answer that?"

SECTION L. ALLEY PARK HOMES

The sponsors and stockholders in Alley Park Homes, Bayside, N. Y., are British subjects living in England. Capital stock of the corporate sponsors was \$6,000. The project was built on a leasehold. The excess of mortgage proceeds over all costs was \$322,000 which was distributed to British stockholders.

The evidence shows that it was not necessary to be a builder to enjoy "windfall" profits. Doctors and lawyers also did so.

In this case, it appeared that it was not even necessary to reside in the United States to enjoy such profits.

SECTION M. LEWIS GARDENS—FRANKLIN TRICE

Lewis Gardens is a section 608 project in Henrico County, Va. Franklin Trice of Richmond, Va., was the principal sponsor of the project. Trice had purchased from the United States in July 1948 a tract of 258 acres for \$61,790. Fifty-four acres of that land, with a prorated cost of \$13,987, were used in this section 608 housing

project. Trice's application, filed 8 months later, valued this property at \$349,000. FHA ultimately valued the property at \$190,000. The FHA-insured mortgage was \$3,884,400. The total costs of the project were \$2,925,053 including a fee that Trice paid himself of \$129,000. Excluding the Trice fee, the mortgage proceeds were \$1,100,000 more than the total costs. The excess mortgage proceeds were distributed to the shareholders, a substantial part of it after the mortgage was in default.

FHA is now the owner of the property and has estimated that it will lose between \$700,000 and \$2 million in the ultimate disposition of the property.

SECTION N. ARLINGTON TOWERS—WALTER P. MCFARLAND

Walter P. McFarland, a former restaurant operator, with no previous building experience, is the principal sponsor of Arlington Towers, a rental housing project now being constructed under section 207 of the act. The total estimated cost of the project is in excess of \$22 million. The investment of McFarland and the other sponsors is \$35,000, although section 207 provides for insured mortgages of not to exceed 80 percent of the value of the property.

The project involves four sponsoring corporations to whom FHA-insured mortgage commitments totaled \$16.5 million. Contracts were entered into between these 4 corporations and John McShain, Inc., builder, for the construction of the project for \$15.7 million. These contracts were filed with FHA. However, another contract kept secret from FHA showed that the real cost of construction was \$18 million. McShain had also guaranteed loans for the sponsors of the corporations in order to arrange for interim financing. The director of the FHA district office in Washington testified that he would not have approved the project had he known of the secret construction contract.

The project is being built on a leasehold. The corporation owning the land has obtained a mortgage covering the land in the excess of the total cost. Upon completion of the project, the corporations will have debts exceeding \$5 million not known to FHA and not permitted by FHA regulations.

The project consists of luxury apartments renting for as high as \$325 a month. The commitment was insured and the contract signed in 1953.

SECTION O. MANHATTANTOWN PROJECT, NEW YORK

Title I of the Housing Act of 1949 makes provision for Federal contributions to local slum clearance projects. The program is administered by the Housing and Home Finance Agency, which is authorized to contribute two-thirds of the subsidy for the acquisition and clearing of a slum area. There are several of these projects underway in New York city. The city acquires the slum area at its fair market value. It then contracts for the sale of the property to the redeveloper at the fair value of the land less the estimated cost of demolishing the old dwellings.

The Manhattantown slum-clearance project occupies a 6-block area in New York City. The city had purchased the land and build-

ings for \$15,385,784 and had appraised the value of the land with the buildings removed at \$4,157,370. Under the terms of the contract entered into by Manhattantown, Inc., with the city in May 1952, which became effective August 29, 1952, Manhattantown agreed to purchase the land for \$3,108,711, being given a credit of approximately \$1 million for the cost of demolition of the buildings then on the land. The Federal Government is obligated to pay two-thirds and the city of New York one-third of the \$12,277,073 difference between the cost of the land and the sale price to Manhattantown.

Manhattantown paid \$1,087,350 of the purchase price in cash. The \$2,019,361 balance is payable in 4 years, upon completion of the project. The sponsor corporation manages the properties and collects the rents until the new buildings are constructed. It is permitted to retain, out of any profits that may accrue, a maximum risk fee of \$300,000 a year for 3 years. This risk fee is payable only if the project is completed at the end of the 4-year period.

The contract requires Manhattantown to demolish the old buildings, relocate the tenants, and construct new buildings within 4 years. Over 2 years of that period has elapsed. No new buildings have been constructed and only one-sixth of the area has been cleared of the old buildings. According to the project schedules, the demolition work, except for a few commercial buildings, and the relocation of tenants was to have been completed by October 31, 1954.

One of the contract requirements was that the company selected to manage the project and collect the rents was required to be approved by the city. John L. Hennessy & Co., an experienced real-estate firm, was submitted and approved as the management agent. Stockholders of Manhattantown then subverted this requirement by setting up "John L. Hennessy Co., Manhattantown division," an entirely different partnership as the management agent. John L. Hennessy and his son held only a 15-percent interest in this partnership. The remaining 85 percent was held by other stockholders of Manhattantown.

The management company receives 5 percent of the gross rents. The management company has only 2 employees and it pays Manhattantown \$1,000 a month to do much of the actual work. Yet it has paid out over \$156,000 in profits and salaries to sponsors of the project.

Ferman Builders is paid \$25,000 a year to supervise the preliminary construction work until actual construction begins. This company occupies 1 desk in the office of Jack Ferman and has only 2 employees—Jack Ferman and his secretary, Lillian Ager. This company has already been paid \$42,000. When actual construction begins, Ferman Builders will receive a maximum of \$275,000 for supervising construction. Jack Ferman is president of Manhattantown.

A partnership called Apartment Equipment Rentals was set up on December 16, 1952, to lease refrigerators and stoves in the project to Manhattantown. Manhattantown originally purchased the refrigerators and stoves for \$33,000, and then sold them to Apartment Equipment Rentals for \$33,000. Upon the signing of the December 16, 1952 contract, Apartment Equipment Rentals was paid \$38,000 as rent retroactive to September 1, 1952.

Apartment Equipment Rentals continued in operation for a year and distributed over \$126,000 to its partners, all of whom were stock-

holders of Manhattantown or their relatives. At the end of the year, the refrigerators and stoves were sold back to Manhattantown for \$33,000.

The record contains numerous other cases where stockholders and their relatives were paid varying sums of money for little or no work.

The record indicates that the stockholders of Manhattantown found it profitable that there was delay in demolition. It also results in greater rental income from the properties.

This was an unusual and fantastic pattern for the stockholders and their relatives to withdraw large sums of money from the project. There are 10 principal stockholders in the project: Samuel Caspert, Jack Ferman, John L. Hennessy, Nathan Silver, Sol Leistner, Maurice Millstein, Fred Landau, Robert Olnick, Charles Feibush, and M. E. Kessler. Each of these stockholders sold part of his interest in the project to members of a syndicate of friends and relatives. A complete breakdown of how each stockholder, his relatives, and friends received \$649,215 from the project in the past 2 years is shown in the table on the following pages:

Manhattantown, Inc., Sept. 1, 1952-Sept. 30, 1954—Summary of money received by interested principals for services rendered to maintain, demolish existing property and erect Manhattantown, Inc.

Principals	Capital invested	Salaries through Sept. 30, 1954	Fees and contracts through Sept. 30, 1954	J. L. Hennessy Manhattan division		Apartment equipment rental		Total
				Partners drew through Sept. 30, 1954	Salaries through Sept. 30, 1954	Partners drew through Sept. 30, 1954	Other through Sept. 30, 1954	
J. Ferman.....	\$104,500		\$42,893.79	\$41,217.91				\$84,111.70
I. Ferman.....		\$9,807.64						9,807.64
A. Ferman.....		30,588.33						30,588.33
S. Caspert.....	22,000	37,633.07	1,087.50					39,320.57
Wife.....	22,000	495.00			\$275.00		\$250.00	1,010.00
Son Herbert.....	22,000			4,941.92		\$10,206.78		15,148.70
M. Todd.....	11,000	1,153.86						1,153.86
C. Parment.....	14,000	5,843.08						5,843.08
S. and L. Arnett.....	9,166		357.00					357.00
Baltch.....	9,166							
L. Spivack.....	16,500							
J. Lowell.....	11,000							
Blum.....								
B. Caspert.....							368.65	368.65
J. L. Hennessy.....	27,500			20,575.77				20,575.77
John L. Hennessy.....				12,643.70				12,643.70
Lawrence Rainer.....	11,000				1,083.29			1,083.29
N. Silver.....	86,000	31,169.69						31,169.69
(E) A. Roeder.....	13,750					17,273.84		17,273.84
C. Torgaw.....						8,567.04		8,567.04
S. Gatkin.....	16,500	1,961.46			812.50			2,773.96
R. Silver.....								
I. Hoffmann.....	5,500							
E. Torgaw.....						6,567.04		6,567.04
I. Leistner (Koenig Iron).....	16,500						260.68	260.68
I. Leistner.....	16,500	34,706.85					810.00	35,516.85
W. Leistner.....	16,500							
O. Knapki.....								
N. Folkman.....	11,000	1,307.64						1,307.64
H. Elman.....	16,500							
A. Rosenblum.....	11,000				1,083.29	7,717.04		8,800.33
Sid Leistner.....	11,000							
(F) A. Drier.....	55,000					13,802.64		13,802.64
G. Rosenblum.....	16,500							
N. S. Folkman.....	11,000							
M. Kurtz.....	11,000							
I. Folkman.....		1,307.64			2,166.71			3,474.35

M. Millstein.....	\$104,500							
P. Millstein.....				\$16,372.16				\$16,372.16
J. Millstein.....		\$1,730.79						1,730.79
Fred Landue.....	60,500		\$48,847.02					48,847.02
S. Abrams.....	30,250					\$9,802.64		9,802.64
A. Zirnalls.....	30,250	8,301.22			\$2,740.56			11,041.78
M. Weiss.....		8,301.22			2,740.56			11,041.78
P. Olnick.....	49,500		26,700.84	30,676.23				56,777.07
H. Nadel.....	11,000							
L. Friedman.....	55,000							
M. Lansky.....	11,000					3,235.59		3,235.59
T. Block.....								
M. Block.....						7,274.91		7,274.91
Jack Block.....						5,609.18		5,609.18
C. Feibush.....	66,000	6,653.80		3,653.80	871.50			17,664.78
T. Mittman.....	44,000					25,232.77		25,232.77
H. Feibush.....								
Ann Feibush (wife).....				2,678.24				2,678.24
M. E. Kessler.....	18,333			5,000.00				5,000.00
S. J. Kessler.....	18,333			9,000.00				9,000.00
Max Becker.....		17,083.18						17,083.18
_____ Kessler.....	18,333							
Other:								
Lillian Agar.....		1,307.64						1,307.64
Abram Beillis.....		7,270.01						7,270.01
Lewis Flanzer.....		4,807.75						4,807.75
Matilda Blaikie.....		588.00						588.00
Robert Raider.....					947.96			947.96
I. Lustig.....				8,224.92				8,224.92
David Shapiro.....						5,151.31		5,151.31
Adjustment, due to posting payrolls in wrong account (see schedule attached for specifications).....					21,000.00			21,000.00
Total.....	1,093,414	212,017.87	142,111.07	132,759.82	33,721.37	126,926.37	\$1,679.33	1,649,215.83

¹ This figure includes both the amounts actually checked and the amounts projected through Sept. 30, 1954.

The practice of misrepresenting the estimated architect's and builder's fees in applications for FHA mortgage commitments was also practiced here. On December 18, 1953, Jack Ferman, representing Manhattantown, filed an application for FHA mortgage insurance, under section 207 of the Housing Act, on the first building to be constructed in the project. This application estimates the architect's fees at 5 percent and estimated builder's fees at 5 percent. These estimates were included in the application with full knowledge that M. E. Kessler had a contract to do the architectural work for a fee of 1¼ percent and that Ferman Builders had a contract to do the construction work for a fee of 1¼ percent.

This application also estimated the value of the land at \$15.21 a square foot. The city had valued the same land at \$4.50 a square foot in selling the property to Manhattantown. On a comparable basis the entire project would have an estimated value of \$14 million on the Manhattantown estimate compared with the \$4 million purchase price.

In May 1952, the same time that Manhattantown, Inc., entered into its slum-clearance contract with the city, the East River Housing Corp. entered into a similar contract to build the Corlears Hook project. That sponsoring corporation agreed to purchase the land for \$1,049,000. It paid one-half the purchase price at that time and the remaining one-half 6 months later.

Just as in the Manhattantown contract, the East River Housing Corp. was given 4 years to demolish the old buildings, relocate the tenants, and construct new housing. This corporation had completed demolition of all the area on which the new residential dwellings are to be constructed by the spring of 1954. Only 6 buildings remain on the fringe of the area where the parking facilities will ultimately be located. The construction of new buildings was started in March 1954, and all of the 4 new buildings are now in various stages of construction.

Abraham E. Kazan, manager of the Corlears Hook project, testified that FHA would not insure the mortgage on the new residential dwellings. The buildings will be built entirely with private financing because FHA had insisted that the costs of the project would be \$7 million more than the sponsor corporation estimated its cost. Even though firm contracts had been entered into for most of the work, the FHA still insisted on its higher estimate of costs. The sponsor refused to accept the FHA commitment and thereupon obtained private financing for the project.

COMMENT BY SENATORS FULBRIGHT, ROBERTSON, SPARKMAN, FREAR,
DOUGLAS, AND LEHMAN

While we recognize that it is difficult to reflect the full evidence in a report, we feel that a study of the hearings on particular cases might well justify conclusions other than those stated in the report.

Therefore we cannot subscribe to all the conclusions reached in the individual case studies in parts VII and VIII.

PART IX. CONCLUSIONS AND RECOMMENDATIONS

The text of this report contains our conclusions with respect to each of the subjects discussed in connection with that discussion. It would normally be appropriate to recommend statutory changes to prevent repetition of the inequities here discussed. This committee has, however, made extensive amendments to the National Housing Act by the Housing Act of 1954. That act was adopted with some general knowledge of the frauds and inequities here discussed, although without any realization of the extent of those practices.

The Housing Act of 1954 has now been in effect but a few months. It seems that further time should be given to see whether its provisions will cure the evils referred to in this report. We therefore make no recommendations for legislative changes at this time, but prefer to wait until we have had more experience with the 1954 act before recommending further or additional legislative changes.

In order to properly analyze the effect of these amendments, we recommend that funds be made available to the committee to employ the personnel necessary to conduct a thorough study.

PART X. TABULATIONS

The tabulation of projects listed below includes all sections 608 and 803 (Wherry Act) projects examined in public hearings in which there were windfall profits. The projects are listed alphabetically under the name of the principal sponsor or sponsors as designated in the caption. The amounts listed under the heading of "Windfall" represent the amount by which the proceeds of the mortgage insured by FHA exceeded the actual costs of the project. On projects where the costs exceeded the amount of the mortgage proceeds, the amount of the difference is preceded by a minus sign (—) under the "Windfall" heading.

Projects located on mortgaged leasehold land are indicated by "(L)". In such leasehold cases, the proceeds of the mortgage on the land are included in the mortgage proceeds, the land is included in the project costs, and the excess of the mortgage proceeds over all costs of the land are included in the windfall amount. Projects financed under section 803 are designated as such by footnotes.

SECTIONS 608 AND 803 PROJECTS

The following tabulations include all section 608 and 803 projects examined in public hearings having "windfall profits."

BANKS PROJECTS

Sponsor: W. S. Banks.

Associates: John W. Walton,¹ R. Webster Ross,¹ Howard Everhard,² and George Ford.³

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Huntington Apartments, Alexandria, Va.	\$300	\$570,000	\$495,286	\$74,714
University City, Prince Georges County, Md.....	³ 900	³ 2,522,400	³ 2,326,826	³ 195,575
Total.....	1,200	3,092,400	2,822,112	270,289

¹ Walton and Ross had an interest in University City.

² Everhard and Ford had an interest in Huntington Apartments.

³ Combined figures for 3 project corporations.

BART PROJECTS

Sponsor: Harry Bart.

Associate: Albert Stark.¹

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Seton Heights, Baltimore, Md.....	\$2,600	\$1,540,000	\$1,537,284	\$2,716
Park Raven Apartments, Baltimore, Md.	27,505	2,041,200	1,942,393	98,807
Drum Castle, Baltimore, Md.....	³ 120,000	2,121,600	1,919,411	202,189
Cross Country Manor, Baltimore, Md....	3,100	3,332,800	3,196,172	136,628
Edgewood Manor Apartments, No. 1, Hartford, Md. ²	2,500	2,057,400	1,724,650	332,750
Edgewood Manor Apartments, No. 2, Hartford, Md. ²	2,500	2,456,700	2,242,883	213,817
Total.....	158,205	13,549,700	12,562,793	986,907

¹ Stark had an interest in Seton Heights and Cross Country Manor.

² Sec. 803 projects.

³ Land exchanged for capital stock.

BERNE PROJECT

Sponsor: Gustave M. Berne.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Rockaway Crest, Far Rockaway, N. Y...	¹ \$3,000	¹ \$16,596,321	¹ \$13,712,485	¹ \$2,883,836

¹ Combined figures for 3 project corporations.

BONNER PROJECT

Sponsor: Bertram F. Bonner.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Bon Haven Apartments, Richmond, Va..	¹ \$3,000	¹ \$3,995,389	¹ \$3,058,045	¹ \$937,344

¹ Combined figures for 3 project corporations.

BOWEN-SUNDY PROJECT

Sponsors: William A. Bowen and James L. Sundy.
Associate: P. H. Preston.¹

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Nelson Apartment, Savannah, Ga.....	\$7,500	\$1,402,000	\$1,100,290	\$301,710

¹ One-third stock interest of P. H. Preston held in the name of William A. Bowen. The stock interest of these stockholders was sold prior to completion of building improvements.

JOSEPH J. BRUNETTI PROJECTS

Sponsor: Joseph J. Brunetti.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Brookchester, Inc., New Milford, N. J....	¹ \$10,000	¹ \$11,011,207	¹ \$9,940,032	¹ \$1,071,175
Maybrook Gardens, Maywood, N. J.....	² 10,000	² 3,705,978	² 3,696,283	² 4,695
Richfield Village, Clifton, N. J.....	³ 8,000	³ 7,627,370	³ 7,491,652	³ 135,718
Rutherford Apartments, Rutherford, N. J.....	5,000	1,001,000	957,871	43,129
Van Ness Gardens, Maplewood, N. J....	1,000	758,698	901,908	143,210
Wright Village, Lodi, N. J.....	1,000	4,157,010	4,012,552	144,458
Total.....	35,000	28,261,263	27,000,298	1,260,965

¹ Combined figures for 10 project corporations.

² Combined figures for 6 project corporations.

³ Combined figures for 8 project corporations.

CAFRITZ PROJECT

Sponsor: Morris Cafritz.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Parklands Manor, Inc., Washington, D. C....	\$15,155	\$3,563,000	\$3,011,000	\$552,000

FHA INVESTIGATION

CARMACK PROJECT

Sponsor: Edward A. Carmack.

Associates: Joseph W. Hart, Bolten McBride, and Shelby Construction Co.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Stone River Homes, Rutherford, Tenn. ¹	\$76,400	\$4,819,000	\$4,486,000	\$333,000

¹ Sec. 803 project.

CARNER PROJECT

Sponsor: Jack Carner.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Kingsway Gardens, Brooklyn, N. Y.	\$91,908	\$2,440,530	\$1,986,384	\$454,146

COHEN PROJECTS

Sponsor: Ben Cohen.

Associate: Herman Cohen.¹

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Monroe Park Apartments, Wilmington, Del.	² \$6,000	² \$5,296,000	² \$4,776,000	² \$520,000
Silver Hill Apartments, Suitland, Md.	400	1,496,700	1,376,000	120,700
Highland Apartments, Gloucester, N. J.	1,000	2,264,000	2,240,000	24,000
Penn Manor Apartments, Camden, N. J.	³ 4,000	³ 2,465,200	³ 2,330,000	³ 135,200
Camp Allen Apartments (Wherry project), Norfolk, Va.	100	2,412,700	1,961,700	451,000
Howard Apartments, Portsmouth, Va.	⁽⁵⁾	⁴ 297,200	⁴ 276,000	⁴ 21,200
Lee Housing, Craddock, Va.	⁽⁵⁾	1,194,500	1,060,000	134,500
Riverdrive Apartments, Newport News, Va.	100	1,684,000	1,381,000	303,000
River Point Apartments, Norfolk, Va.	100	1,710,000	1,585,000	125,000
Benning Apartments, Washington, D. C.	1,000	546,600	567,600	-21,000
Eastern Avenue Apartments, Washington, D. C.	³ 18,000	³ 541,000	³ 560,000	³ -19,000
Total	30,700	19,907,900	18,113,300	1,794,600

¹ Herman Cohen has an interest in Penn Manor.² Combined figures for 3 project corporations.³ Combined figures for 4 project corporations.⁴ Combined figures for 2 project corporations.⁵ Not available.

DILLER-WEBER PROJECTS

Sponsors: R. S. Diller, and Arthur B. Weber.

Associates: Irving L. Kalsman,¹ Herman Kranz,² and David Salot.³

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Baldwin Gardens Co, Los Angeles, Calif.	\$1,000	\$2,288,600	\$2,061,446	\$227,154
Wilshire-La Cienega Gardens, Los Angeles, Calif.	39,000	1,937,600	1,827,211	110,389
Monte Bello Gardens, Monte Bello, Calif.	³ 37,000	³ 540,000	³ 505,000	³ 35,000
Total	77,000	4,766,200	4,383,657	362,543

¹ Kalsman had an interest in Baldwin Gardens.² Kranz and Salot had an interest in Wilshire-La Cienega Gardens.³ Combined figures for 10 project corporations.

DONOVAN PROJECTS

Sponsor: Richard Donovan.

Projects	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Skyway Homes, Inc., Rapid City, S. Dak. ¹	\$25,025	\$3,413,000	\$3,240,580	\$172,420
Meadow Brook Manor, Minneapolis, Minn. ¹	24,875	4,634,800	4,547,997	86,803
Total.....	49,900	8,047,800	7,788,577	259,223

¹ Sec. 803 project.

EDWARDS-CORCORAN PROJECTS

Sponsors: Wayne F. Edwards and Leonard R. Corcoran.
Associate: Edward A. Dwyer.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Watson Boulevard Apartments, Rochester, N. Y.....	\$3,000	\$340,000	\$319,000	\$21,000
Chapel Courts, Hampton, Va.....	(¹)	144,000	128,000	16,000
Total.....	3,000	484,000	447,000	37,000

¹ Not available.

FIRKS PROJECTS

Sponsor: Samuel Firks.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Holly Park Knolls, Englewood, Calif.....	1,000	\$2,615,000	\$2,627,000	-\$12,000
Astor Building Co., Los Angeles, Calif....	5,000	199,500	192,145	7,355
Barclay Building Co., Los Angeles, Calif..	5,000	145,000	137,689	7,311
Chase Building Co., Los Angeles, Calif....	5,000	173,200	164,488	8,712
Drake Building Co., Los Angeles, Calif....	5,000	173,200	163,821	9,379
Ellen Building Co., Los Angeles, Calif....	5,000	173,200	161,593	11,607
Franklin Building Co., Los Angeles, Calif..	5,000	163,700	155,063	8,637
Grant Building Co., Los Angeles, Calif....	5,000	173,200	163,953	9,247
Howe Building Co., Los Angeles, Calif....	5,000	143,500	135,893	7,607
Indiana Building Co., Los Angeles, Calif..	5,000	145,000	137,762	7,238
Jefferson Building Co., Los Angeles, Calif.	5,000	173,200	162,284	10,916
Kentucky Building Co., Los Angeles, Calif.....	5,000	175,800	167,982	7,818
Lennox Building Co., Los Angeles, Calif....	5,000	197,500	188,128	9,372
Magna Building Co., Los Angeles, Calif....	5,000	134,400	126,603	7,797
Norse Building Co., Los Angeles, Calif....	5,000	134,400	126,248	8,152
Olimpia Building Co., Los Angeles, Calif..	5,000	134,400	126,622	7,778
Prescott Building Co., Los Angeles, Calif..	5,000	134,400	126,643	7,757
Quincy Building Co., Los Angeles, Calif....	5,000	145,200	139,591	5,609
Raleigh Building Co., Los Angeles, Calif..	5,000	145,200	138,411	6,789
Saxon Building Co., Los Angeles, Calif....	5,000	158,400	153,876	4,524
Thorne Building Co., Los Angeles, Calif....	5,000	145,200	138,124	7,076
University Building Co., Los Angeles, Calif.....	5,000	158,400	154,403	3,997
Total.....	106,000	5,941,000	5,788,322	152,678

FHA INVESTIGATION

FISHER PROJECTS

Sponsors: Martin Fisher, Larry Fisher, and Zachary Fisher.
Associate: Jarco Bros.¹

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Lynn Terrace Apartments, Kew Gardens, N. Y.....	² \$2,000	² \$2,499,400	² \$2,281,000	² \$218,400
Bennett Arms, Inc., New York, N. Y.....	1,000	569,000	534,000	35,000
Woodbriar Manor, Jackson Heights, Long Island, N. Y.....	1,000	5,037,300	4,063,085	974,215
Total.....	4,000	8,105,700	6,878,085	1,227,615

¹ Jarco Bros. had an interest in Bennett Arms.

² Combined figures for 2 project corporations.

GARVEY PROJECTS

Sponsor: W. W. Garvey.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Batten Apartments, Inc., Wichita, Kans.	\$52,000	\$1,105,000	\$902,567	\$202,433
Fort Riley Apartments, Geary, Kans. ¹	49,000	2,931,000	2,809,000	122,000
Parkwood Village, Wichita, Kans.....	48,000	782,500	680,744	101,756
Total.....	149,000	4,818,500	4,392,311	426,189

¹ Sec. 803 project.

GLASSMAN PROJECT

Sponsor: Herbert Glassman.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Glass Manor, Prince Georges County, Md.....	¹ \$5,075	¹ \$6,249,000	¹ \$5,997,898	¹ \$251,102

¹ Combined figures for 3 project corporations.

GORDON-PRESTON PROJECTS

Sponsors: B. Gordon, Jr., E. J. Preston, and H. W. Hutman.

Associates: Investors Diversified Services, E. M. Bros, Carl Budwesky, and Don A. Loftus.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Shirley Duke Apartments, Section 1, Arlington, Va.....	\$1,000	\$2,674,000	\$2,199,742	\$474,258
Shirley Duke Apartments, Section 2, Arlington, Va.....	1,000	2,598,000	2,266,041	331,959
Shirley Duke Apartments, Section 3, Arlington, Va.....	1,000	1,840,000	1,540,756	299,244
Shirley Duke Apartments, Section 4, Arlington, Va.....	1,000	2,390,000	1,976,719	413,281
Shirley Duke Apartments, Section 5, Arlington, Va.....	1,000	2,288,000	1,937,242	350,768
Shirley Duke Apartments, Section 6, Arlington, Va.....	1,000	2,056,000	1,806,117	249,883
Total.....	6,000	13,846,000	11,726,617	2,119,383

GOTTLIEB PROJECT

Sponsor: Dr. Samuel D. Gottlieb.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
District Heights Apartments, District Heights, Md.....	\$3,800	\$5,796,900	\$4,500,000	\$1,296,900

GROSS-MORTON PROJECT

Sponsors: Alfred Gross, George M. Gross, and Lawrence Morton.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Glen Oaks Village, Bellerose, Long Island, N. Y.....	¹ \$90,000	¹ \$26,759,000	¹ \$21,740,367	¹ \$5,018,633 (L)

¹ Combined figures for 11 project corporations.

GUTERMAN-MASCIOLI PROJECT

Sponsors: Julius Guterman, Samuel Guterman, and Joseph Mascioli.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Great Neck Oaks, Great Neck, N. Y.....	¹ \$30,000	¹ \$5,609,439	¹ \$4,620,512	¹ \$1,408,927 (L)

¹ Combined figures for 3 project corporations.

HAHN-KNOBLER PROJECTS

Sponsors: William P. Hahn and Aaron B. Knobler.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
WPH Apartments, Bayside, N. Y.....	\$5,000	\$1,218,078	\$1,025,800	\$192,278
SHR Apartments, Bayside, N. Y.....	5,000	1,989,651	1,447,000	542,651
ABK Apartments, Bayside, N. Y.....	5,000	897,160	754,456	142,704
Total.....	15,000	4,104,889	3,227,256	877,633

HESS-OLIVIERI PROJECTS

Sponsors: Haskell Hess and Emilio Olivieri.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Alpine Apartments, Jackson Heights, N. Y.....	\$2,000	\$1,887,600	\$1,717,600	\$170,000
Elmwood Gardens, Queens, N. Y.....	¹ 2,000	¹ 1,159,600	¹ 1,055,953	¹ 103,647
Iroquois Apartments, Hollis, N. Y.....	2,000	832,000	636,930	195,070
Jeffrey Gardens, Bayside, N. Y.....	² 2,000	² 2,357,755	² 2,020,056	² 337,699
Palo Alto Apartments, Hollis, N. Y.....	5,000	817,650	708,051	109,599
Louden Gardens, Albany, N. Y.....	2,000	2,716,854	2,765,910	-49,056
Total.....	15,000	9,771,459	8,904,500	866,959

¹ Combined figures for 5 project corporations.

² Combined figures for 2 project corporations.

FHA INVESTIGATION

KASKELL PROJECTS

Sponsor: Alfred Kaskell.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Forest Hills Terrace, Bloomfield, N. J.	\$1,000	\$1,543,000	\$1,647,000	-\$104,000
Howard Terrace, Forest Hills, N. Y.	1,000	4,255,580	4,225,000	30,580
Anita Terrace, Forest Hills, N. Y.	1,000	4,904,800	5,090,000	-185,200
Central Gardens, No. 1, Forest Hills, N. Y.	1,000	2,858,000	3,090,694	-232,694
Central Gardens, No. 2, Forest Hills, N. Y.	1,000	1,304,200	1,425,000	-120,800
Hunter Gardens, Flushing, N. Y.	5,000	1,866,800	1,620,000	246,900
Churchill Manor, Kew Gardens, N. Y.	1,000	1,777,156	1,579,958	197,198
Fleetwood, No. 1, Fleetwood, N. Y.	1,000	2,099,500	1,929,000	170,500
Fleetwood, No. 2, Fleetwood, N. Y.	1,000	2,099,500	1,966,000	133,500
Linden Grove Apartments, New Hyde Park, N. Y.	1,000	1,371,186	1,396,000	-24,814
Dara Gardens, Flushing, N. Y.	1,000	4,657,900	4,316,000	341,900
Forest Hills Manor, Bloomfield, N. J.	1,000	2,845,000	3,303,492	-458,492
Normandie Apartments, Newark, N. J.	1,000	917,500	1,068,977	-151,477
Forest Hills Apartments, Bloomfield, N. J.	1,000	2,349,000	2,506,000	-157,000
Total	18,000	34,849,122	35,163,121	-313,999

KAVY-HIRSH PROJECT

Sponsors: Alex. P. Hirsh, Henry Hirsh, Louis Benedict, and Morris Kavy

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Farragut Gardens, Inc., Brooklyn, N. Y.	¹ \$10,000	¹ \$23,721,700	¹ \$19,093,270	¹ \$4,628,430 (L)

¹ Combined figures for 5 project corporations.

KEELTY PROJECTS

Sponsors: James J. Keelty, Jr., Mrs. James J. Keelty, Joseph S. Keelty, James Dorment, and Mrs. James Dorment.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Rodgers Forge Apartments, No. 1, Baltimore, Md.	\$3,000	\$2,106,000	\$1,691,676	\$414,324
Rodgers Forge Apartments, No. 2, Baltimore, Md.	3,000	2,028,800	1,608,528	420,272
Total	6,000	4,134,800	3,300,204	834,596

KESSLER-ROSEN PROJECT

Sponsors: Alex Kessler, Jean Van Dyke Kessler, Harry Rosen, and Joseph Pirozzi.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Braddock Gardens Apartments, Inc., Queens Village, N. Y.	\$750	\$1,359,125	\$1,040,400	\$318,725

KLEIN PROJECTS

Sponsor: Kalman Klein.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Langdale Corp., Bellerose, N. Y.	¹ \$100,000	¹ \$3,119,834	¹ \$2,402,203	¹ \$717,631
Austin Gardins, Forest Hills, N. Y.	1,000	1,293,963	1,217,549	76,414
Total.....	101,000	4,413,797	3,619,752	794,045

¹ Combined figures for 2 project corporations.

KNOTT PROJECTS

Sponsors: Charles Knott, Martin Knott, and John Knott.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Chesapeake Gardens, No. 1, Harford County, Md. ¹	² \$9,000	\$3,256,000	\$2,794,616	\$461,384
Chesapeake Gardens, No. 2, Harford County, Md. ¹	9,000	1,587,600	1,332,484	255,116
Chesapeake Gardens, No. 3, Harford County, Md. ¹		1,588,800	1,242,431	346,369
Total.....	18,000	6,432,400	5,369,531	1,062,869

¹ Sec. 803 project.² Combined figure on projects 1 and 3.

KRAUSS-ZAGER PROJECTS

Sponsors: Max Krauss and Alexander Zager.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Midway Gardens Apartments, Pasadena, Tex.	\$2,500	\$338,520	\$245,000	\$93,520
Shepherd Gardens Apartments, Houston, Tex.	127,000	1,482,300	1,098,726	383,574
Total.....	129,500	1,820,820	1,343,726	477,094

LEVITT PROJECT

Sponsors: William J. Levitt and Alfred S. Levitt.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Levittown, Long Island, N. Y. ¹	\$50,000	\$29,946,500	\$24,169,000	\$5,777,500

¹ Section 603 project.

FHA INVESTIGATION

LIPPMAN PROJECTS

Sponsors: Leo A. Lippman and Maurice B. Lippman.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Admiral Homes, Inc., Indianapolis, Ind.	\$88,400	\$486,000	\$458,030	\$27,970
Arlington Apartments, Inc., Indianapolis, Ind.	180,000	1,458,000	1,309,751	148,249
Barrington Heights, Inc., Indianapolis, Ind.	188,000	1,738,200	1,641,459	96,741
Blackwood Apartments, Inc., South Bend, Ind.	169,000	1,466,100	1,461,791	4,309
Canterbury Courts, Inc., Indianapolis, Ind.	70,500	631,800	624,722	7,078
Commodore Homes, Inc., Indianapolis, Ind.	158,750	972,000	932,836	39,164
Eddy-Colfax Apartments, Inc., South Bend, Ind.	20,700	178,200	186,313	8,113
Frontenac Apartments, Inc., Indianapolis, Ind.	104,000	818,100	761,994	56,106
Granville Apartments, Inc., Indianapolis, Ind.	46,500	413,100	373,444	39,656
Kitley Corporation, Indianapolis, Ind.	84,200	571,700	545,745	25,955
Mincar Homes, Inc., Indianapolis, Ind.	16,300	154,200	145,630	8,570
Norden Court, Inc., Indianapolis, Ind.	101,500	599,400	561,992	37,408
Sherwood Apartments, Inc., Indianapolis, Ind.	98,000	882,900	818,357	64,543
Shoreland Towers, Inc., Indianapolis, Ind.	217,000	1,838,700	1,768,801	69,899
Webster Homes, Inc., Indianapolis, Ind.	45,600	275,400	261,364	14,036
West Arlington Homes, Inc., Indianapolis, Ind.	81,500	471,700	450,922	20,778
Windermere Apartments, Inc., Marion, Ind.	32,000	283,500	259,787	23,713
Total	¹ 1,701,950	13,239,000	12,562,938	676,062

¹ Of the total corporate capital stock, \$24,180 was issued for cash, \$768,700 was issued for land, and \$909,070 was issued for a contract fee.

LOFTUS PROJECT

Sponsor: Don A. Loftus.

Associates: D. E. Ryan, C. J. Ryan, Jack F. Chrysler, Webster R. Robinson, and Marshall Robinson.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Beverly Manor, Columbus, Ohio	¹ \$4,000	¹ \$8,826,400	¹ \$7,690,999	¹ \$1,135,401

¹ Combined figures for 4 project corporations.

MINKIN PROJECTS

Sponsor: David Minkin.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Riverview Terrace Corp., Flushing, Long Island, N. Y.	\$300	\$1,400,000	\$1,260,000	\$140,000
Pomonok Crest Apartments, Kew Gardens, Long Island, N. Y.	300	1,525,000	1,375,000	150,000
Franklin Gardens, Inc., Flushing, Long Island, N. Y.	1,500	1,100,588	881,365	219,223
Total	2,100	4,025,588	3,516,365	509,223

MINTZ PROJECT

Sponsor: Louis Mintz.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Kingsway Development, Inc., Brooklyn, N. Y.	\$1,000	\$1,288,818	\$1,150,398	\$138,420

MURCHISON PROJECTS

Sponsors: Tecon Realty Corp, (Clint Murchison, Jr., and J. D. Murchison) and Centex Construction Co., (Tom Lively, Fletcher Lippert, and Ira Rupley).

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Randolph Air Force Base, Bexar, Tex. ¹ ...	² \$10,000	² \$5,142,100	² \$4,572,100	² \$570,000

¹ Sec. 803 project.

² Combined figures for 2 project corporations.

MUSS-SCHAFRAN PROJECTS

Sponsors: Alexander Muss and Samuel Schafran.¹

Associates: Nathan Manilow ² and Jacob L. Rappaport.³

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Mitchell Manor 1, Nassau, N. Y. ⁴	\$1,000	\$2,204,398	\$1,971,644	\$232,754
Mitchell Manor 2, Nassau, N. Y. ⁴	1,000	3,189,400	2,808,542	380,858
Parkway Gardens, Brooklyn, N. Y.....	108,913	1,078,200	952,333	125,867
Yantacaw Village, Nutley, N. J.....	(⁵)	455,000	455,000	-----
Boulevard Gardens, Bayonne, N. J.....	88,775	1,675,000	1,536,858	138,142
Sunset Gardens, Nutley, N. J.....	29,995	595,750	676,302	-80,552
Total	329,643	9,197,748	8,400,679	796,969

¹ No interest in Yantacaw Village or Sunset Gardens.

² Manilow had an interest in Yantacaw Village.

³ Rappaport had an interest in Mitchell Manors 1 and 2, and Parkway Gardens.

⁴ Sec. 803 project.

⁵ Not available.

NEISLOSS-BRONSTEIN PROJECTS

Sponsors: Benjamin Neisloss, Harry Neisloss, and Benjamin Bronstein.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Brookside Gardens, Somerville, N. J.....	\$30	\$3,168,500	\$2,642,884	\$525,616
Oakland Gardens (Springfield), Queens, N. Y.....	30	4,294,800	3,919,039	375,761
Oakland Gardens (Hill), Queens, N. Y.....	30	1,983,800	1,822,727	161,073
Total	90	9,447,100	8,384,650	1,062,450

ORLIAN PROJECTS

Sponsor: Israel Orlian.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Congress Gardens, Brooklyn, N. Y.....	\$400	\$989,828	\$751,671	\$238,157
Boulevard Gardens, Forest Hills, N. Y.....	400	2,704,592	2,365,850	338,742 (L)
Floral Park, North Bergen, N. J.....	10,000	2,177,500	2,029,411	148,089
Floral Park, No. 2, North Bergen, N. J.....	10,000	883,500	904,978	-21,478
Total	20,800	6,755,420	6,051,910	703,510

OSIAS PROJECTS

Sponsor: Harry L. Osias.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Jackson Apartments, No. 1, Inc., Jackson Heights, N. Y.	\$1,000	\$871,855	\$711,031	\$160,824
Jackson Apartments, No. 2, Inc., Jackson, Heights, N. Y.	1,000	872,870	719,692	153,178
Kew Gardens Apartments, Inc., Queens, N. Y.	¹ 12,000	¹ 9,788,425	¹ 8,747,588	¹ 1,040,837
Kew Gardens Hills, No. 2, Inc., Queens, N. Y.	1,000	3,246,401	2,477,614	768,787
Third Kew Gardens Hills, Inc., Queens, N. Y.	1,000	3,793,590	2,704,245	1,089,345
Kew Gardens Hills, Inc., No. 4, Queens, N. Y.	1,000	4,715,898	3,358,318	1,357,580
Kew Garden Hills Apartments, Inc., Queens, N. Y.	1,000	3,622,850	3,583,436	39,414
102d St. Apartments, No. 1, Inc., Forest Hills, N. Y.	1,000	1,370,022	1,239,145	130,877
102d St. Apartments, No. 2, Inc., Forest Hills, N. Y.	1,000	1,211,265	1,083,051	128,214
Total.....	20,000	29,493,176	24,624,120	4,869,056

¹ Combined figures for 12 project corporations.

PAGE MANOR PROJECT

Sponsors: David Muss and Norman K. Winston.

Associates: Link Cowan, Ernest Cowan, and Tecon Realty Corp.¹

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Page Manor, Dayton, Ohio ²	³ \$800	³ \$17,377,500	³ \$16,613,439	³ \$764,061

¹ Principal owners of Tecon are Clint Murchison, Jr., and J. D. Murchison.² Sec. 803 project.³ Combined figures for 4 project corporations.

PICKMAN PROJECTS

Sponsor: Morton Pickman.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Hollis Crest Apartments, Holliswood, N. Y.	\$1,800	\$1,574,450	\$1,546,761	\$27,689
Briarwood Gardens, Forest Hills, Long Island, N. Y.	6,000	4,559,240	4,080,098	479,142
Parkway Crest Apartments, Holliswood, N. Y.	1,800	3,229,230	3,148,244	80,986
Whitehall Crest Apartments, Holliswood, N. Y.	1,800	2,505,984	2,427,433	78,551
Foot Hill Terrace Apartments, Holliswood, N. Y.	1,800	1,682,986	1,639,733	43,253
Arrowbrook Gardens, Flushing, Long Island, N. Y.	2,000	2,755,250	2,491,190	264,060
Total.....	15,200	16,307,140	15,333,459	973,681

PUNIA-MARX PROJECTS

Sponsors: Charles Punia and William Marx.
Associate: Israel Orlian.¹

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Clinton Terrace, Inc., Nassau, N. Y.	1 \$4,000	\$1,928,308	\$1,946,068	-\$17,760
Larchmont Properties, Westchester, N. Y.	134,500	2,315,200	2,446,240	-131,040
Barnes Gardens, Bronx, N. Y.	400	893,814	964,855	-71,041 (L)
Greystone Gardens, Bronx, N. Y.	400	1,190,497	1,338,403	-147,906 (L)
Hutton Lafayette, West Orange, N. J.	5,000	2,063,790	2,118,565	-54,775
Harbor Gardens, Brooklyn, N. Y.	400	1,483,321	1,230,302	253,019
Woodcliff Hills, No. 1, North Bergen, N. J.	400	2,127,840	1,994,388	133,452
Woodcliff Hills, No. 2, North Bergen, N. J.	400	1,385,280	1,326,230	59,050
Rusken College Gardens, Forest Hills, N. Y.	250	2,299,795	2,210,293	89,502 (L)
Oliver Gardens, Brooklyn, N. Y.	400	2,324,560	1,972,777	351,783 (L)
Queens College Gardens, Kew Gardens, N. Y.	400	3,750,000	3,430,248	319,752 (L)
Quality Gardens, Forest Hills, N. Y.	450	2,594,870	2,442,351	152,519 (L)
Sun Dawn Gardens, Brooklyn, N. Y.	5,000	1,556,464	1,396,782	159,682
Edwark Properties Apartments, Inc., Brooklyn, N. Y.	400	574,100	530,526	43,574 (L)
Narrows Gardens, Brooklyn, N. Y.	400	669,340	579,868	89,472 (L)
Monticello Gardens, Jackson Heights, N. Y.	400	1,575,115	1,293,877	281,238 (L)
Verona College Gardens, Forest Hills, N. Y.	400	1,691,137	1,430,893	260,244 (L)
Thurman College Gardens, Forest Hills, N. Y.	400	1,577,482	1,365,846	211,636 (L)
Blossom Gardens, Flushing, N. Y.	400	1,726,565	1,604,776	121,789 (L)
Aero Gardens, Forest Hills, N. Y.	400	2,704,592	2,325,668	378,924 (L)
Dahill Gardens, Inc., Brooklyn, N. Y.	500	748,967	669,444	79,523
Continental Gardens, Forest Hills, N. Y.	2,500	1,839,116	1,633,376	205,740 (L)
Total	157,800	39,020,153	36,251,776	2,768,377

¹ Orlian had an interest in Woodcliff Hills 1 and 2, Rusken College Gardens, Sun Dawn Gardens, and Aero Gardens.

QUEENS VALLEY DEVELOPMENT CO. PROJECT

Sponsors: ¹ Francis Taylor, Sir Godfrey Way Mitchell, Taylor Woodrow, Ltd., Owen Fisher, Fayette Investment Trust, Ltd., and John L. Turner.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Alley Park Homes, Bayside, Queens, N. Y.	\$6,000	\$6,196,500	\$5,874,386	\$322,114

¹ Stockholders of Queens Valley Development Co.—all British subjects.

RODMAN-FINK PROJECTS

Sponsors: Samuel Rodman and Max Fink.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Atlantic Gardens, Washington, D. C. Chesapeake Terrace, Washington, D. C.	¹ \$5,000	¹ \$1,850,266	¹ \$1,508,266	¹ \$342,000

¹ Combined figures for 3 project corporations.

FHA INVESTIGATION

ROSE-COYNE PROJECTS

Sponsors: Charles Rose, Marshall Coyne, and Arthur Hamburger.
 Associates: Irving Rosoff and Samuel Rosoff.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Jefferson Village Apartments, Falls Church, Va.....	¹ \$5,000	¹ \$4,852,500	¹ \$4,571,065	¹ \$281,435
Quebec House, Washington, D. C.....	² 2,000	² 7,388,000	² 6,919,163	² 468,837
Total.....	7,000	12,240,500	11,490,228	750,272

¹ Combined figures for 10 project corporations.

² Combined figures for 2 project corporations.

ROTH-SCHENKER PROJECTS

Sponsors: Samuel J. Roth, Joel W. Schenker, and George Gregory.
 Associate: Harry Ginsberg.¹

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Elmwood Gardens, East Paterson, N. J.; Elmwood Knolls, East Paterson, N. J.....	² \$2,000	² \$5,917,600	² \$5,128,878	² \$788,722
Marine Terrace, Astoria, N. Y.; Gregory Apartments, Astoria, N. Y.; Elisabeth Apartments, Astoria, N. Y.....	² 3,000	² 11,429,000	² 9,881,427	² 1,547,573
Total.....	5,000	17,346,600	15,010,305	2,336,295

¹ Ginsberg had an interest in Elmwood Gardens.

² Combined figures for Elmwood Gardens and Elmwood Knolls.

² Combined figures for Marine Terrace, Gregory Apartments, and Elisabeth Apartments.

RUBENSTEIN PROJECTS

Sponsor: Hyman Rubenstein.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Williams Field Air Force Base, Maricopa, Ariz. ¹		\$3,324,100	\$3,288,000	\$36,100
Davis-Monthan Air Force Base, Pima, Ariz. ¹		4,429,900	4,151,388	278,512
Total.....	² \$468,600	7,754,000	7,439,388	314,612

¹ Sec. 803 project.

² Combined figure for both projects.

SARNER-SOLOW PROJECTS

Sponsors: Sidney Sarnar and Ralph J. Solow.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Linwood Park, Section 1, Inc., Teaneck, N. J.....	¹ \$13,000	¹ \$8,875,000	¹ \$6,662,500	¹ \$2,212,500
Teaneck Gardens, Teaneck, N. J.....	1,000	1,667,000	1,490,000	177,000
Total.....	14,000	10,542,000	8,152,500	2,389,500

¹ Combined figures on 13 project corporations.

SCHNEIDER PROJECTS

Sponsor: Jacob Schneider.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Lanson Gardens, Brooklyn, N. Y.....	\$1,000	\$1,194,800	\$1,063,053	\$131,747
Roder Gardens, Brooklyn, N. Y.....	1,000	770,400	680,688	89,712
Total.....	2,000	1,965,200	1,743,741	221,459

SCHNEIDER-FLOSSBURG PROJECTS

Sponsors: Fred Schneider and Melvin Flossburg.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Rhode Island Plaza, Washington, D. C..	\$200	\$3,520,000	\$3,250,000	\$270,000
Parkchester Courts, Washington, D. C..	¹ 60,000	¹ 1,980,000	¹ 1,860,000	¹ 120,000
Total.....	60,200	5,500,000	5,110,000	390,000

¹ Combined figures for 4 project corporations.

SCHNITZER PROJECTS

Sponsor: Harold J. Schnitzer.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Great Falls Air Base, Great Falls, Mont. ¹	\$10,200	\$3,208,600	\$3,126,593	\$82,007
Hill Air Force Base, Salt Lake City, Utah ¹	10,400	2,806,376	2,723,366	83,010
Total.....	20,600	6,014,976	5,849,959	165,017

¹ Sec. 803 project.

SHARP PROJECTS

Sponsor: Carl C. Sharp.
Associates: Stewart Morris and Carlos Morris.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Bayou Park Apartments, Houston, Tex..	\$89,900	\$1,282,500	\$949,148	\$333,352
Bayou Lake Apartments, Pasadena, Tex..	11,900	415,000	323,000	92,000
Total.....	101,800	1,697,500	1,272,148	425,352

SHELBY CONSTRUCTION CO. PROJECTS

Sponsors: Paul Kapelow and Louis Leader.
Associate: Alex Kornman.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Claiborne Towers, New Orleans, La.....	¹ \$700,000	¹ \$9,230,600	¹ \$9,133,484	¹ \$97,116
Parkchester Group, New Orleans, La.....	² 656,100	² 10,845,600	² 9,099,412	² 1,746,188
Audubon Park Group, St. Louis, Mo.....	³ 328,700	³ 11,328,351	³ 11,770,351	³ -442,000
Roselawn Apartments, Natchez, Miss.....	⁴ 121,600	⁴ 1,741,600	⁴ 1,529,289	⁴ 212,311
Total.....	1,806,400	33,156,151	32,532,536	1,613,615

¹ Combined figures for 2 project corporations.

² Combined figures for 11 project corporations.

³ Combined figures for 4 project corporations.

⁴ Combined figures for 8 project corporations.

FHA INVESTIGATION

SHPARAGO-SCHMIDT PROJECT

Sponsors: Carl Shparago, Hannah Shparago, Frank A. Schmidt, and Fanny Schmidt.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
The Town House, Shreveport, La.....	\$64,998	\$2,703,000	\$2,417,000	\$286,000

SILBERMAN-DE CHARIO PROJECTS

Sponsors: Saul Silberman and Ralph De Chario.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Fairfax Gardens, Baltimore, Md.....	\$1,000	\$1,535,800	\$1,550,849	-\$15,049
Uplands Apartments, Inc., Baltimore, Md.....	5,000	3,742,000	3,514,000	228,000
Uplands Apartments, B, Baltimore, Md.....	1,000	3,900,000	3,348,000	552,000
Fort George Meade, Anne Arundel, Md. ¹	2,000	2,832,800	2,537,000	295,800
Total.....	9,000	12,010,600	10,949,849	1,060,751

¹ Sec. 803 project.

SMALL-STERN PROJECT

Sponsors: Albert Small and David L. Stern.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Idaho Terrace, Washington, D. C.....	\$12,000	\$1,758,750	\$1,573,287	\$185,463

SPORKIN PROJECTS

Sponsor: Charles Sporkin.

Associates: Herbert Du Bois,¹ Thomas R. Edwards,¹ Eve Lowenthal,² Nat Sporkin,² Maurice Sporkin,² and Milton Lundy.²

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Parkway Apartments, Inc., Haddonfield, N. J.....	\$50,000	\$2,929,600	\$2,679,600	\$250,000
Clover Hills, Mount Holly, N. J.....	2,700	1,620,000	1,340,000	280,000
Margate Gardens, Margate City, N. J.....	10,000	648,000	658,000	-10,000
Total.....	62,700	5,197,600	4,677,600	520,000

¹ Du Bois and Edwards had an interest in Parkway Apartments and Clover Hills.² Lowenthal, Nat and Maurice Sporkin, and Lundy had an interest in Margate Gardens.

TILLES PROJECT

Sponsor: Gilbert Tilles.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Knightsbridge Gardens, Great Neck, N. Y.....	\$10,000	\$1,093,352	\$853,999	\$239,353

TISHMAN PROJECT

Sponsors: Norman Tishman, David Tishman, and Robert Tishman.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Rego Park Apartments, Elmhurst, N. Y.	¹ \$2,000	¹ \$6,731,839	¹ \$4,987,177	¹ \$1,744,662

¹ Combined figures for 2 project corporations.

TRICE PROJECT

Sponsor: Franklin A. Trice.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Lewis Gardens, Henrico County, Va.....	¹ \$526,000	² \$3,884,400	² \$2,785,400	² \$1,099,000

¹ Land worth \$13,897 was exchanged for stock valued at \$526,000.² Combined figures for 5 project corporations.

TRUMP-TOMASELLO PROJECT

Sponsors: Fred C. Trump and William Tomasello.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Beach Haven, Brooklyn, N. Y.....	¹ \$249,000	¹ \$25,177,200	¹ \$22,158,200	¹ \$3,019,000

¹ Combined figures for 6 project corporations.

WARNER-KANTER PROJECTS

Sponsors: Marvin L. Warner and Joseph H. Kanter.
Associate: William MacDonald.¹

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Sheridan Apartments, Birmingham, Ala.	\$23,000	\$264,600	\$261,029	\$3,571
Marlin Courts, Birmingham, Ala.....	2,000	128,000	128,000	-----
Washington Park, Birmingham, Ala.....	17,000	355,000	325,328	29,672
South Park Apartments, Birmingham, Ala.....	24,000	935,300	870,145	65,155
Jan-Mar Apartments, Birmingham, Ala.....	6,100	100,000	99,734	266
Park Manor, Birmingham, Ala.....	30,000	462,200	450,007	12,193
Essex House, Birmingham, Ala.....	76,000	1,221,595	1,224,172	-2,577
Canterbury Gardens, Cincinnati, Ohio.....	121,000	2,881,182	2,316,896	564,286
Stratford Manor, No. 1, Cincinnati, Ohio.....	205,000	4,280,400	3,502,567	777,833
Stratford Manor, No. 2, Cincinnati, Ohio.....	160,000	2,964,500	2,475,820	488,680
Canterbury Gardens, No. 1, St. Louis, Mo.....	135,000	3,763,065	3,474,448	288,617
Canterbury Gardens, No. 2, St. Louis, Mo.....	135,000	3,663,692	3,547,071	116,621
Essex House, Indianapolis, Ind.....	176,000	3,544,398	3,428,378	116,020
Total.....	² 1,110,100	24,563,932	22,103,595	2,460,337

¹ McDonald advanced \$250,000 for purchase of land for Canterbury Gardens Nos. 1 and 2, St. Louis, Mo.² Capital stock of \$519,100 was redeemed upon completion of projects.

FHA INVESTIGATION

WEINBERG PROJECTS

Sponsor: Bernard Weinberg.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Pleasantville Manor Apartments, Pleasantville, N. J.....	\$2, 000	\$1, 680, 000	\$1, 452, 000	\$228, 000
Barrington Manor Apartments, Barrington, N. J.....	2, 000	2, 323, 000	1, 840, 033	482, 967
Total.....	4, 000	4, 003, 000	3, 292, 033	710, 967

WEINGART-BOYER PROJECT

Sponsors: Ben Weingart and Louis Boyer.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Stocker-Crenshaw, Los Angeles, Calif.....	¹ \$420, 200	¹ \$10, 066, 300	¹ \$9, 801, 436	¹ \$264, 874

¹ Combined figures for 43 project corporations.

WHITTENBERG PROJECTS

Sponsor: H. G. Whittenberg.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Arcadia Apartments, Louisville, Ky.....	\$12, 900	\$649, 600	\$596, 438	\$53, 162
Do.....	26, 800	1, 254, 400	1, 151, 929	102, 471
Do.....	12, 600	515, 200	472, 087	43, 113
Total.....	52, 300	2, 419, 200	2, 220, 454	198, 746

WINSTON-MUSS PROJECTS

Sponsors: Norman K. Winston and David Muss.

Associates: Louis H Kaplan, Henry W. Penn, and Mika Stiftung.¹

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Auburndale Terrace Apartments, Auburndale, N. Y.....	\$1,000	\$620,275	\$599,186	\$21,089
Auburndale Village, Auburndale, N. Y.....	\$4,000	\$711,206	\$703,164	\$8,042
Auburndale Gardens, Inc., Auburndale, N. Y.....	1,000	627,985	584,983	43,002
Birchwood Manor, Inc., Queens, New York, N. Y.....	\$8,000	\$1,835,233	\$1,739,530	\$95,703
Maple Manor, Inc., Auburndale, N. Y.....	1,000	670,830	629,374	41,456
Oaktree Village, Inc., Section 1, Queens, New York, N. Y.....	\$2,000	\$1,130,017	\$1,030,571	\$99,446
Pine Terrace Apartments, Inc., Section 1, Auburndale, N. Y.....	\$2,000	\$141,058	\$164,525	\$-23,467
Beechwood Village, Inc., Queens, New York, N. Y.....	1,000	800,000	745,224	54,776
Billy Mitchell Village, Inc., San Antonio, Tex.....	3,000	3,220,200	2,742,500	477,700
Billy Mitchell Village, Nos. 2 and 3, San Antonio, Tex. ²	\$6,000	\$5,048,083	\$4,495,934	\$552,149
Total.....	29,000	14,804,887	13,434,991	1,369,896

¹ Kaplan, Penn, and Mika Stiftung, a Swiss corporation, had an interest in the Billy Mitchell projects

² Sec. 803 projects.

³ Combined figures for 4 project corporations.

⁴ Combined figures for 2 project corporations.

WOHL-BLEACHER PROJECTS

Sponsors: Alfred Wohl, Morris Bleacher, and Charles K. Itchkow.

Associate: Arthur Wohl.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Kew Terrace, Inc., Flushing, N. Y.....	\$3,000	\$1,830,815	\$1,585,272	\$245,543
Kew Terrace, No. 2, Flushing, N. Y.....	3,000	1,280,085	1,089,695	190,390
Total.....	6,000	3,110,900	2,674,967	435,933

WOLOSOFF PROJECTS

Sponsor: Alvin B. Wolosoff.

Associates: Morty Wolosoff¹ and David Minkin.²

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Alley Pond Park, Hollis, N. Y.....	\$3,000	\$4,652,000	\$4,176,423	\$475,577
Lakeview Apartments, Queens, New York, N. Y.....	\$10,000	\$3,102,514	\$2,458,000	\$644,514
Total.....	13,000	7,754,514	6,634,423	1,120,091

¹ Morty Wolosoff had an interest in Alley Pond Park.

² Minkin had an interest in Lakeview Apartments.

³ Combined figures for 3 project corporations.

WOODNER PROJECTS

Sponsor: Ian Woodner.¹

Associates: Max Woodner and Beverly Woodner.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Fayette Court, Inc., Alexander, Va.	\$300	\$419,400	\$398,813	\$20,587
Fenwood, Section A, Inc., Hempstead, N. Y.	500	757,600	615,345	142,255
Fenwood, Section B, Inc., Hempstead, N. Y.	500	1,026,100	833,492	192,608
Fenwood, Section C, Inc., Hempstead, N. Y.	500	721,500	586,024	135,476
Fenwood, Section D, Inc., Hempstead, N. Y.	425	1,269,600	1,031,207	238,393
Inwood Corp., Washington, D. C.	1,000	1,447,000	1,233,105	213,805
Manor Park Apartments, Sections 1 and 2, Wilmington, Del.	2,000	2,678,400	2,668,117	10,283
Terrace Corp., Washington, D. C.	2,000	772,000	731,477	40,523
Shipley Park Corp., Washington, D. C.	1,000	2,010,600	1,669,873	340,727
Columbia Heights, Section 4, Inc., Arlington, Va.	400	976,500	899,206	77,294
Jonathan Woodner, Inc., Washington, D. C.	10,000	200,000	192,328	7,672
Ruth Woodner, Inc., Washington, D. C.	10,000	137,000	132,149	4,851
University Hills, Inc., University Park, Md.	2,000	2,630,000	2,151,939	478,061
Crestwood Lake Apartments, Section 1, Yonkers, N. Y.	1,000	2,356,000	2,212,108	143,892 (L)
Crestwood Lake Apartments, Section 2, Yonkers, N. Y.	1,000	2,435,100	2,558,533	-123,433 (L)
Huntwood Apartments Corp., Washington, D. C.	1,000	1,267,000	1,536,993	-269,993 (L)
Rock Creek Plaza, Sections 1 and 2, Washington, D. C.	3,000	10,936,300	11,750,997	-814,697 (L)
Swifton Village, Section 1, Cincinnati, Ohio.	36,000	1,063,360	1,042,865	20,495 (L)
Swifton Village, Section 2, Cincinnati, Ohio.	52,000	1,528,680	1,498,804	29,876 (L)
Swifton Village, Section 3, Cincinnati, Ohio.	75,000	2,182,230	2,200,173	-17,943 (L)
Swifton Village, Section 4, Cincinnati, Ohio.	59,000	1,746,080	1,757,179	-11,099 (L)
Swifton Village, Section 5, Cincinnati, Ohio.	139,000	4,014,460	4,090,687	-76,227 (L)
Chanute Apartments Corp., Champaign, Ill. ¹	125,000	1,603,800	2,080,724	-476,924
Chanute Gardens, Corp. Champaign, Ill. ¹	127,000	4,876,200	6,214,332	-1,338,132
Total	649,625	49,054,910	50,086,470	-1,031,560

¹ Sec. 803 projects.

YOUSEM-BIALAC PROJECT

Sponsors: Philip Yousem, Sam Bialac, and Jerry Bialac.

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Union Housing, Los Angeles, Calif.	¹ \$255,726	¹ \$5,167,700	¹ \$5,025,000	¹ \$142,700

¹ Combined figures for 35 project corporations.

ZARETT-LANE PROJECT

Sponsors: Hyman H. Zarett and Sylvia Lane.

Associates: Jack Speigel,¹ and Isodore Lehrer.¹

Project	Corporate capital stock	Project mortgage proceeds (including premium)	Total project cost	Windfall
Bayshore Gardens, Brooklyn, N. Y.	\$10,500	\$1,370,007	\$1,154,108	\$215,899

¹ Speigel and Lehrer purchased Lane's $\frac{1}{2}$ interest.

APPENDIX

OVER-ALL STATISTICS ON FHA HOUSING PROGRAM, 1934 TO JUNE 30, 1954

	Number of loans	Number of units	Original amount
Title I, sec. 2 (property improvement).....	17,315,729	(1)	\$7,956,271,146
Sec. 203.....	2,777,627	2,890,874	17,452,327,835
Sec. 207.....	662	68,830	357,123,431
Sec. 213.....	8,818	38,697	365,205,097
Sec. 603.....	624,652	690,006	3,645,259,907
Sec. 608.....	7,045	465,683	3,439,771,105
Sec. 803.....	236	74,085	596,228,420
Sec. 903.....	48,199	55,245	428,753,250

¹ Not applicable.

FEDERAL BUREAU OF INVESTIGATION REPORT ON CLYDE L. POWELL, FORMER ASSISTANT COMMISSIONER, FEDERAL HOUSING ADMINISTRATION

The following is a summary of some background concerning Clyde L. Powell¹ former Assistant Commissioner, Rental Housing Division, Federal Housing Administration:

Mr. Powell resides at the Sheraton-Park Hotel in Washington, D. C., and maintains a legal residence at 476 North Kingshighway, St. Louis, Mo.

The records of the Federal Housing Administration indicate Clyde L. Powell was born March 2, 1896, at Salem, Mo.; served in World War I, having enlisted in September 1917 and being discharged in May 1919. He claimed 17 months' service in France and claimed attendance at the University of Missouri engineering department, from 1914 to 1917, without graduation.

Recent inquiry indicates there is no record of Clyde L. Powell attending Missouri University, Columbia, Mo., or the Missouri School of Mines, Rolla, Mo., during the period 1914-17.

The records of the St. Louis, Mo., Police Department reflect that a Clyde L. Powell, was C. Clyde Powell, and Robert Lane, age 19 years, a bellboy, was arrested on March 29, 1916, for larceny from a dwelling. It is reported that this individual had two pawn tickets in his possession at the time of arrest. The records reflect he admitted these pawn tickets were for a ring and a pair of gold cuff links stolen from two different hotel guests. On May 2, 1916, the above-described Clyde L. Powell was sentenced to 1 year in the workhouse and was paroled on the same date. The records of the circuit clerk for the criminal causes court, St. Louis, Mo., reflect that a Clyde L. Powell, on May 2, 1916, upon entering a plea of guilty, was sentenced to 1 year in the workhouse for larceny of a ring valued at \$25 from I. C. McNiece, of the Washington Hotel, St. Louis, Mo. It appears that this Clyde L. Powell was paroled on the same date, and ordered to report by letter to the judge. The circuit clerk's records show an application for pardon, dated May 2, 1916 (same day as sentencing), and signed the same date. This application indicates the applicant, Clyde Powell, was born March 2, 1897; was employed at the Washington Hotel; and gave his home address as Salem, Mo.

Your attention is invited to the identity of name and home—Salem, Mo.—with that given by Assistant Commissioner Clyde L. Powell in his Federal Housing Administration employment record. There is exactly a 1-year difference in the dates of birth and age at the time of arrest.

The identification record for one Clyde Lilbon Powell, Federal Bureau of Investigation No. 5180, reflected he entered the United States Army on June 4, 1917, at Kansas City, Mo., and was assigned Army Serial No. 805870. The identifica-

tion record reflects, further, that the same person was arrested by the Philadelphia, Pa., Police Department, on October 30, 1917, on a charge of larceny; entered a plea of guilty on November 8, 1917; was given a suspended sentence; and was discharged. The identification record shows this same Clyde Lilbon Powell was again arrested on January 12, 1920, by the Little Rock, Ark., Police Department, on a charge of suspicion. No disposition of this arrest is shown.

A search of the police records of the Little Rock, Ark., Police Department indicated one Clyde Powell of Salem, Mo., was arrested on January 12, 1920, for suspicion of passing bogus checks and was discharged. A notation on the records of the Arkansas Police Department indicates "now wanted Texarkana, Tex., and Dallas, Tex.—bad checks." The identification record reveals this same person was again arrested, this time on August 19, 1922, by the Dallas, Tex., Police Department, charged with passing a worthless check. It appears he made restitution and was released.

The military-service record of Clyde L. Powell, Army Serial No. 805870, shows he enlisted in the United States Army, Enlisted Reserve Corps, on June 4, 1917. It is noted that the serial number and enlistment date in this military-service record are identical with the number and date set forth in the above-mentioned identification record. The service record reveals Powell was unable to report for duty when called on January 15, 1918, because he was being held by civil authorities in the county jail, at Chicago, Ill., for having passed a worthless check at the Siegel Cooper & Co. The Chicago Police Department records reflect that Clyde L. Powell was arrested in Chicago, Ill., on October 17, 1917, for passing a check for \$85 at Siegel Cooper & Co., Chicago, Ill., drawn on the South West Bank of Kansas City, Mo., payable to Clyde L. Powell, signed George W. Powell, which check was returned. His age was given as 23, residing at Kansas City, Mo. The service record reflects further, that Clyde L. Powell entered on active duty on April 15, 1918. The record indicates that Powell was absent without leave from December 14 to 18, 1918, and received a summary court-martial sentence of confinement at hard labor for 2 months, and forfeiture of two-thirds pay. The unexpired portion of Powell's sentence to confinement was remitted on January 28, 1919. The record also reveals Clyde L. Powell received company punishment, March 28, 1918, for missing reveille and formation. Clyde L. Powell was honorably discharged on May 8, 1919, as a private first class, by reason of expiration of his term of service.

The booking desk register for the old Jackson County Jail, Kansas City, Mo., under registry No. 4692, reveals that one Clyde L. Powell, age 22; height 5 feet, 6 inches; hair, light; eyes, blue; race, white; born Salem Mo.; was committed to jail by Justice of the Peace Clark on February 8, 1918. The charge was shown as "surrendered by bondsman." The records further reveal that the prisoner was released on March 12, 1918, on bond.

The records of the Jackson County sheriff's office, Kansas City, Mo., for the year 1917 reflected one Clyde Powell, 21; 5 feet 6 inches; chestnut hair; blue eyes; white; male; of Salem, Mo., was arrested on September 18, 1917, on charge of embezzlement and was released on bond. The record book of Justice of Peace Charles A. Clark, Kaw Township, Jackson County, Mo., Docket No. 3975, reflected Clyde Powell and Clara George, on September 18, 1917, were charged with embezzlement. The Kansas City Times of September 19, 1917, on page 10, reports as follows:

**"HOTEL ACCUSES EMPLOYEES—EMBEZZLEMENT OF MUEHLEBACH MONEY
CHARGE AGAINST COUPLE**

"Clyde L. Powell, assistant auditor of Hotel Muehlebach, was arraigned on a charge of embezzlement before Judge Charles H. Clark, yesterday afternoon, and placed in the county jail in default of \$1,000 bond. He and Miss Clara George, cashier of the Plantation Grill, were charged with having embezzled \$450 of the hotel's money. Powell pleaded not guilty. His hearing was set for September 28. Miss George was ill and unable to appear yesterday. Powell is 25 and Miss George is 38 years old."

The records of the St. Louis, Mo., Police Department reflect, further, that a Clyde Powell, age 34-35, a broker by profession, residing at 4406 McPherson, St. Louis, Mo., was arrested on March 17 and April 14, 1931, for failure to have a State automobile license. It has been ascertained that Clyde L. Powell, Assistant Commissioner, Federal Housing Administration, was a real-estate broker in St. Louis, Mo., in 1931, and at that time resided at Hampden Hall Apartments, 4402-4406 McPherson, St. Louis, Mo.

According to the date of birth given in his Federal Housing Administration employment record, Clyde L. Powell would have been 35 years old on March 2, 1931.

The criminal records of the Metropolitan Police Department, Washington, D. C., reveal that one Clyde Powell, age 45; white; occupation, clerk; marital status, single; address, Wardman Park Hotel; had been arrested at 2:35 a. m. on July 16, 1943, and had been charged with being disorderly. The disposition reflected that Powell elected to forfeit \$5.

The identification record referred to above also reveals that the Civil Service Commission had submitted two fingerprint cards for the same Clyde Lilbon Powell. One dated August 14, 1941, gives Powell's position as Assistant Administrator, Federal Housing Administration, Washington, D. C., and contains the statement: "I have never been arrested" in response to the inquiry concerning an arrest record. The second fingerprint card submitted by the Civil Service Commission, dated January 10, 1948, shows Powell's position as Assistant Commissioner, Rental Housing Division, Federal Housing Administration, Washington, D. C. On this latter card, in answer to the question, "Have you ever been arrested for any reason whatsoever"? there is a cross mark in the space next to the word, "No." The arrest record of Clyde Lilbon Powell, as recorded in the identification record referred to above, was furnished the Civil Service Commission on October 22, 1941, and, on March 31, 1948, by the Federal Bureau of Investigation.

The fingerprint cards referred to above, describe Clyde Lilbon Powell with the identical full name, date of birth, employment, and residences in 1941 and 1948, as appear in the employment records of the Federal Housing Administration for Clyde L. Powell, Assistant Commissioner, Federal Housing Administration. The fingerprint cards are part of the identification record described above.

INDEX OF NAMES

	Page
A	
ABK Apartments.....	113
Admiral Homes.....	116
Aero Gardens.....	119
Ager, Lillian.....	102
Airway Construction Co.....	94, 95, 96
Allen & Kelley.....	97
Alley Park Homes.....	100, 119
Alley Pond Park.....	48, 125
Alpine Apartments.....	113
American Community Builders.....	21
Andrews, T. Coleman.....	1
Anita Terrace.....	114
Apartment Equipment Rentals.....	102
Arcadia Apartments.....	124
Arlington Apartments.....	116
Arlington Towers.....	101
Arrowbrook Gardens.....	118
Askew, Hugh.....	24, 25
Astor Building Co.....	111
Atlas Construction Co.....	56
Atlantic Gardens.....	48, 100, 119
Auburndale Gardens.....	125
Auburndale Terrace.....	125
Auburndale Village.....	125
Audubon Park.....	121
Austin Gardens.....	115

B	
Baldwin Gardens.....	22, 23, 110
Banks & Lee, Inc.....	65
Banks, W. S.....	49, 108
Barclay Building Co.....	111
Barnes Gardens.....	119
Barrington Heights.....	116
Barrington Manor.....	48, 124
Bart, Harry.....	108
Batten Apartments.....	112
Bayou Lake Apartments.....	121
Bayou Park Apartments.....	121
Bayshore Gardens.....	126
Beach Haven.....	41, 123
Beechwood Village.....	125
Benedict, Louis.....	93, 114
Benning Apartments.....	110
Bennett Arms.....	112
Berne, Gustave M.....	109
Beth-Page Realty Co.....	62, 63
Beverly Manor.....	116
Bialec, Jerry.....	126
Bialec, Sam.....	126
Billy Mitchell Village.....	125
Birchwood Manor.....	125
Blackwood Apartments.....	116
Bleacher, Morris.....	125
Bliss, A. A.....	44
Blossom Gardens.....	119

	Page
Bluestein, Emile.....	63
Bonhaven Apartments.....	109
Bonner, Bertram F.....	109
Bonthron, E. Herbert.....	40
Boulevard Gardens.....	49, 117
Bovard, Burton C.....	16, 26, 27, 28, 37, 38
Bowen, William A.....	109
Boyer, Louis.....	42, 124
Braddock Gardens.....	114
Brett, Jerome.....	56
Briarwood Gardens.....	118
Bricker, Senator John W.....	30
Bronstein, Benjamin.....	117
Brookchester, Inc.....	48, 109
Brookside Gardens.....	49, 117
Bros, E. M.....	112
Brunetti, Joseph.....	35, 48, 109
Budwesky, Carl.....	112
Byrne, William F.....	25

C

Cafritz, Morris.....	36, 65, 109
California Contractors License Board.....	57
Camp Allen Apartments.....	110
Cane Enterprises and Associates.....	55
Cane, Harry.....	55
Canterbury Courts.....	116
Canterbury Gardens.....	123
Carmack, Edward A.....	99, 100, 110
Carner, Jack.....	110
Carson Park Mutual Homes.....	42, 98
Casey, Thurry.....	94, 95
Caspert, Samuel.....	103
Cassel, Albert J.....	21
Centex Construction Co.....	117
Central Gardens.....	114
Chaite, Arthur M.....	81, 82, 88, 89
Chambers, Curtis.....	24
Chanute Airfield.....	90
Chanute Apartments.....	126
Chapel Courts.....	111
Charleston Park.....	98
Chase Building Co.....	111
Chesapeake Gardens.....	115
Chesapeake Terrace.....	119
Chisik, Jack.....	56, 57
Claiborne Towers.....	23, 43, 44, 92, 121
Chrysler, Jack F.....	116
Churchill Manor.....	114
Clarke, William A.....	32, 34
Cleveland Parkway Gardens.....	98
Clinton Terrace.....	119
Clover Hills Gardens.....	48, 122
Cohen, Ben.....	48, 110
Cohen, Herman.....	110
Cohen, Mickey.....	55
Colton, Harry L.....	24
Columbia Heights.....	48, 126
Commodore Homes.....	116
Congress Gardens.....	117
Continental Gardens.....	119
Corcoran, Leonard Q.....	111
Corlears Hook project.....	106
Cowan, Ernest.....	118
Cowan, Link.....	94, 95, 118
Coyne, Marshall.....	120

	Page
Cox, Ward E.....	40
Cozy Homes, Inc.....	57
Crawford, Joe E.....	23, 24
Crestwood Lake.....	48, 126
Cross Country Manor.....	108
Crump, E. H., & Sons.....	92

D

Dahill Gardens.....	119
Dara Gardens.....	114
Davis-Monthan Air Force Base.....	120
De Chairo, Ralph.....	122
DeGrazia, Rocco.....	20
DeGrazia, Mrs. Rocco.....	20
Diggs, Marshall.....	85
Diller, Richard S.....	22, 23, 110
Diller-Weber Co.....	23, 110
DiPaglia, Florin.....	56
District Heights Apartments.....	48, 113
Donovan, Richard.....	111
Dorment, James.....	114
Dorment, Mrs. James.....	114
Drake Building Co.....	111
Drum Castle.....	49, 108
Dry Dock Savings Bank.....	94
DuBois, Herbert.....	35, 48, 122
Dumestre, L. J.....	39
Dwyer, Edward A.....	111

E

East River Housing Corp.....	106
Eastern Avenue Apartments.....	110
Eddy-Colfax Apartments.....	116
Edgewood Manor.....	108
Edwards, Thomas R.....	122
Edwards, Wayne F.....	111
Edwark Properties.....	119
Elisabeth Apartments.....	30, 120
Ellen Building Co.....	111
Elliott, Charles.....	24
Elmwood Gardens.....	113, 120
Elmwood Knolls.....	120
Enterprise Construction Co.....	57
Essex House, Birmingham.....	44, 123
Essex House, Indianapolis.....	37, 44, 123
Everhard, Howard.....	108

F

Failkoff, Louis.....	93
Fairfax Gardens.....	122
Farrell, Lew.....	56
Farragut Gardens.....	93, 94, 114
Fayette Court.....	126
Fayette Investment Trust, Ltd.....	119
Feibush, Charles.....	103
Fenwood Apartments.....	126
Ferman Builders.....	102, 106
Ferman, Jack.....	102, 106
Fink, Max.....	119
Finkelstein, Davis A.....	48
Firks, Samuel.....	111
First National Mortgage Association.....	98
Fisher, Larry.....	112
Fisher, Martin.....	112
Fisher, Owen.....	119
Fisher, Zachary.....	112

	Page
Fleetwood Apartments.....	114
Floral Park.....	49, 117
Flossburg, Melvin.....	121
Foot Hill Terrace.....	118
Ford, George.....	108
Forest Hills Apartments.....	114
Forest Hills Terrace.....	114
Forest Hills Manor.....	114
Fort George Meade.....	122
Fort Riley Apartments.....	112
Franklin Building Co.....	111
Franklin Gardens.....	116
Frank-Lon Homes.....	25
Fratto, Luigi.....	56
Frontenac Apartments.....	116
Frost, Andrew.....	24

G

Garden Bay Manor.....	96
Garthson, Louis.....	56
Garvey, W. W.....	112
Gevinson, Dr. Daniel.....	99
Ginsberg, Harry.....	120
Glassman, Herbert.....	49, 112
Glass Manor.....	49, 112
Glen Oaks Village.....	41, 48, 62, 88, 113
Glueck, Charles.....	97
Godley, Ida S.....	62
Golden, Maurice H.....	23
Gordon, Byron, Jr.....	48, 91, 112
Gottlieb, Dr. Dewey S.....	48, 64, 113
Grace, George.....	22, 85
Grace, Patrick.....	85
Grace, Thomas.....	22, 85
Grace, William.....	85
Granger, Marshall & Co.....	89
Grant Building Co.....	111
Granville Apartments.....	116
Great Falls Air Base.....	121
Great Neck Oaks.....	113
Greene, Walter.....	28
Gregory Apartments.....	120
Gregory, George.....	120
Greystone Gardens.....	119
Gross, Alfred.....	48, 113
Gross, Anna.....	62
Gross, George M.....	48, 62, 113
Gross-Morton projects.....	95, 113
Guterman, Julius.....	113
Guterman, Samuel.....	113

H

Hahn, William P.....	113
Halk, George M.....	94
Hamburger, Arthur.....	120
Harbor Gardens.....	119
Hart, Joseph W.....	99, 100, 110
Hennessy, John L. Co.....	102, 103
Hess, Haskell.....	113
Highland Apartments.....	110
Hill Air Force Base.....	121
Hirsch, Alexander P.....	93, 94, 114
Hirsch, Henry.....	93, 114
Hirshon, Fannie, Trust.....	62, 114
Hollis Crest Apartments.....	118
Hollyday, Guy T. O.....	32

	Page
Holly Park Knolls.....	111
Home Builders Institute of Los Angeles.....	31
Howard Apartments.....	110
Howard Terrace.....	114
Howe Building Co.....	111
Hughes, Richard G.....	31
Hunter Gardens.....	114
Huntington Apartments.....	108
Huntwood Apartments.....	126
Hutman, Herman W.....	48, 91, 112
Hutton Lafayette.....	119

I

Idaho Terrace.....	122
Indiana Building Co.....	111
Investors Diversified Services.....	36, 42, 47, 91, 98, 112
Inwood Corp.....	126
Iroquois Apartments.....	113
Itchkow, Charles K.....	125

J

Jackson Apartments.....	118
Jackson, Carl A.....	25
Jan-Mar Apartments.....	123
Jarco Bros.....	112
Jarrell, Howard B.....	25
Jefferson Building Co.....	111
Jefferson Village.....	49, 120
Jeffrey Gardens.....	113
Johnson, W. Taylor.....	20
Junto, Inc.....	63

K

Kalsman, Irving L.....	110
Kanter, Joseph H.....	28, 123
Kapelow, Paul.....	63, 64, 92, 121
Kaplan, Louis H.....	96, 125
Kaskell, Alfred.....	114
Kavy-Hirsch.....	93, 114
Kavy, Morris.....	93
Kazan, Abraham E.....	106
Keelty, James J., Jr.....	48, 114
Keelty, Mrs. James J., Jr.....	114
Keelty, Joseph S.....	114
Keleher, John.....	20
Kelly, Edward J.....	21
Kentucky Building Co.....	111
Kessler, Alex.....	114
Kessler, Jean Van Dyke.....	114
Kessler, M. E.....	103, 106
Kew Gardens Apartments.....	118
Kew Gardens Hills.....	118
Kew Terrace.....	125
Kingsway Gardens.....	110, 116
Kitley Corp.....	116
Klein, Kolman.....	115
Klutznick, Philip.....	21
Knecht, Fred W.....	24
Knightsbridge Gardens.....	122
Knobler, Aaron B.....	113
Knott, Charles.....	115
Knott, John.....	115
Knott, Martin.....	115
Korman, Alex.....	121
Kranz, Herman.....	110
Krauss, Max.....	115

L		Page
Lakeview Apartments	-----	125
Lakewood Park Mutual Homes	-----	42, 98
Landau, Fred	-----	103
Lane, Sylvia	-----	126
Langdale Corp	-----	115
Lanson Gardens	-----	121
Larchmont properties	-----	119
Leader, Louis	-----	92, 121
Lee Housing	-----	110
Lehrer, Isadore	-----	126
Leistner, Nathan	-----	103
Lennox Building Co	-----	111
Levitt, Alfred S	-----	62, 63, 88, 115
Levitt, William J	-----	62, 63, 88, 115
Levittown	-----	62, 88, 115
Lewis Gardens	-----	68, 100, 123
Limestone project	-----	96
Lindon Grove Apartments	-----	114
Linwood Park	-----	96, 120
Lippert, Fletcher	-----	117
Lippman, Leo A	-----	115
Lippman, Maurice	-----	116
Lively, Tom	-----	117
Lockwood, Rodney M	-----	33, 34
Loftus, Don A	-----	91, 112, 116
Long, Senator Russell	-----	29, 30
Lonquist, Axel	-----	25
Louden Gardens	-----	113
Lowenthal, Eve	-----	122
Lundy, Milton	-----	122
Lynn Terrace Apartments	-----	112

M

Mack, Curt C	-----	38, 44
Magna Building Co	-----	111
Maher, Daniel B	-----	82, 83, 84
Manhattantown Project	-----	101, 102, 103, 104, 106
Manilow, Nathan	-----	21, 117
Manor Park	-----	48, 126
Maple Manor	-----	125
Marcus, George I	-----	82
Margate Gardens	-----	122
Marine Terrace	-----	120
Marlin Courts	-----	123
Marx, William	-----	119
Mascioli, Joseph	-----	113
Maybrook Gardens	-----	48, 109
Mayfair Mansions	-----	21
Mayflower Apartments	-----	21
McBride, Bolten	-----	99, 100, 110
McCormack, Richard	-----	85, 86
McDonald, William	-----	123
McFarland, Walter P	-----	101
McGrath, J. Howard	-----	27
McKenna, William F	-----	28, 46
McShain, John	-----	101
Meadowbrook Corp	-----	48
Meadow Brook Manor	-----	111
Michigan Corporation and Securities Commission	-----	57
Mid-City Investment Co	-----	97
Mika Stiftung	-----	96, 125
Midway Gardens	-----	115
Milstein, Maurice	-----	103
Mincar Homes	-----	116
Minkin, David	-----	116, 125
Mintz, Louis	-----	116

	Page
Mississippi Valley Mortgage Co	92
Mitchell Air Force Base	95
Mitchell, Kenneth F	23
Mitchell Manor	117
Mitchell, Sir Godfrey Way	119
Monroe Park	110
Monte Bello Gardens	22, 110
Monticello Gardens	119
Morris, Carlos	121
Morris, Stewart	121
Mortgage Bankers Association	32, 33, 34, 84
Morton, Lawrence	48, 113
Moses, Horace J	24
Mucon Corp	96
Murchison, Clint Jr	94, 95, 96, 117
Murchison, John D	94, 95, 96, 117
Murphy, Howard M	28
Muss, Alexander	49, 94, 95, 96, 117
Muss, David	94, 118, 125

N

Narrows Gardens	119
Nassan, Harry	56
National Association of Home Builders	31, 32, 33, 34
Neel, Samuel E	33, 84
Neisloss, Benjamin	49, 117
Neisloss, Harry	117
Neitlich, Nathan	93
Nelson Apartments	109
Newcomb, T. A	24
Norden Court	116
Normandie Apartments	114
Norse Building Co	111
Nostrand Realty Corp	93
Northbridge Cooperative	96

O

Oakland Gardens	117
Oaktree Village	125
O'Brien, Thomas J	48
Olimpia Building Co	111
Oliver Gardens	119
Olivieri, Emilio	113
Olney, Warren III	28
Olnick, Robert	103
102d Street Apartments	118
Orlian, Israel	49, 117, 119
Osias, Harry L	118

P

Page Manor	94, 95, 118
Palo Alto Apartments	113
Parkchester Court	23, 36, 49, 63, 64, 92, 121
Park Manor	123
Parklands, Inc	65
Parklands Manor	36, 65, 109
Parklands Shopping Center	65
Park Raven Apartments	108, 122
Parkway Apartments	48
Parkway Crest Apartments	118
Parkway Gardens	98, 117
Parkwood Village	112
Paul, Herman D	48
Penn, Henry W	96, 125
Penn Manor	48, 110
Permawall, Inc	56
Peters, Earl	97

	Page
Pickman, Morton	118
Pine Terrace	125
Pioneer Home Improvement Co	56
Pirozzi, Joseph	114
Pleasantville Manor	48, 124
Pomonok Crest	116
Powell, Clyde L	18-22, 27, 29-32, 38, 44, 45, 82-84, 89-91, 99-127
Pratt, John F., Jr	25
Prescott Building Co	111
Preston, Earl J	48, 91, 112
Preston, P. H.	109
Protexawall	56
Punia, Charles	119

Q

Quality Gardens	119
Quebec House	120
Queens College Gardens	119
Queens Valley Development	119
Quincy Building Co	111

R

Raleigh Building Co	111
Randolph Air Force Base	117
Rappaport, Jacob L	117
Ready, William	94, 95
Rego Park Apartments	123
Reston Corp	93
Rhode Island Plaza	49, 121
Richfield Village	48, 109
Richards, Franklin D	29, 30, 39, 45
Riverdrive Apartments	110
River Point Apartments	110
Riverview Terrace	116
Robinson, Marshall	116
Robinson, Webster R	116
Rock Creek Plaza	126
Rockaway Crest Apartments	41, 109
Roder Gardens	121
Rodgers Ford Apartments	48, 114
Rodman, Bella	100
Rodman, Samuel	48, 100, 119
Rose, Charles	49, 120
Roselawn Apartments	121
Rosen, Harry	114
Rosenfeld, Harry A	48
Rosoff, Irving	120
Rosoff, Samuel	120
Ross, Forest	24
Ross, R. Webster	108
Roth, Samuel J	120
Rubenstein, Hyman	43, 120
Rupley, Ira	117
Ruskin College Gardens	119
Rutherford Park Apartments	48, 109
Ryan, C. J	116
Ryan, D. E	116

S

Sadler, Henry F	23
Salmon, John W	22, 23
Salmon, Mrs. Tress	22
Salot, David	110
Sarner, Sidney	35, 36, 82, 96, 97, 120
Saxon Building Co	111
Schafran, Samuel	117

	Page
Schenker, Joel W	120
Schmidt, Fannye	122
Schmidt, Frank A	122
Schnackenberg, Joyce A	124
Schnackenberg, Rex	24
Schneider, Fred	49, 121
Schneider, Jacob	121
Schnitzer, Harold J	121
Seton Heights	49, 108
Sharp, Carl C	121
Shelby Construction Co	23, 27, 43, 63, 64, 92, 99, 110, 121
Shepherd Gardens	115
Sheridan Apartments	123
Sherwood Apartments	97, 116
ShIPLEY Park Corp	88, 126
Shirley-Duke Apartments	36-38, 47, 48, 62, 91, 98, 112
Shoreland Towers	116
Shparago, Carl	122
Shparago, Hannah	122
SHR Apartments	113
Silberman, Saul	48, 63, 64, 122
Silver Hill Apartments	110
Silver, Nathan	103
Solow, Ralph J	96
Skyway Homes	111
Small, Albert	122
Sonnenblick, N. J	37
Sorgatz, William D	24
South Park	123
Sparkman, Senator John	33
Spiegel, Jack	126
Sporkin, Charles	122
Sporkin, Maurice	122
Sporkin, Nat	122
Stark, Albert	49, 108
Steel City Village	97
Stern, David L	122
Stewart Air Force Base	99
Stocker-Crenshaw	124
Stone River Homes	99, 110
Stratford Manor	123
Sun Dawn Gardens	119
Sunset Gardens	49, 117
Swan, Mr. and Mrs. James	97
Swifton Village	126
Sundy, James L	109

T

Taylor, Francis	119
Teaneck Gardens	120
Tecon Realty Corp	96, 117, 118
Terrace Corp	126
Thompson, Lester H	30
Thorne Building Co	111
Thurman College Gardens	119
Tilles, Gilbert	122
Tishman, David	123
Tishman, Norman	123
Tishman, Robert	123
Tomasello, William	123
Town House	122
Traub, Abraham	84, 85, 93
Trice, Franklin	100, 101, 123
Trump, Fred C	123
Turner, John L	119

U		Page
Un-American Activities Committee	-----	100
Union Housing	-----	126
University Building Co	-----	111
University City	-----	49, 108
University Hills	-----	48, 126
Uplands Apartments	-----	48, 64, 122
V		
Van Ness Gardens	-----	109
Van Patten, Frederick A	-----	20, 25
Verona College Gardens	-----	119
Vidaver, Richard	-----	56
W		
Walton, John W	-----	108
Warner-Kanter Cos	-----	28, 37, 44, 63, 64, 123
Warner, Marvin L	-----	28, 123
Warren Gardens	-----	22
Washington Park	-----	123
Watson Boulevard Apartments	-----	111
Weber, Arthur B	-----	22, 23, 39, 110
Webster Homes	-----	116
Weinberg, Bernard	-----	48, 124
Weingart, Ben	-----	42, 124
West, Fay	-----	24
West Arlington Homes	-----	116
West Coast Builders Association	-----	40
Whitchurch, C. L	-----	23, 24
Whitehall Crest Apartments	-----	118
Whittenberg, H. G	-----	124
Williams Air Force Base	-----	120
Williams, Joseph B., Inc	-----	27
Williams, Neal	-----	24
Wilshire-LaCienega Apartments	-----	22, 110
Windemere Apartments	-----	116
Winston, Norman K	-----	94, 95, 96, 118, 125
Wohl, Alfred	-----	125
Wohl, Arthur	-----	125
Wolfe, Jack	-----	56
Wolosoff, Alvin B	-----	125
Wolosoff, Morty	-----	48, 125
Woodbriar Manor	-----	112
Woodcliff Hills	-----	119
Woodner Apartments	-----	41, 43-45, 65, 81, 82, 88, 89
Woodner, Beverly	-----	48, 90, 126
Woodner, Ian	-----	41, 48, 81, 88-91, 126
Woodner, Jonathan, Inc	-----	126
Woodner, Max	-----	48, 90, 126
Woodner, Ruth	-----	126
Woodrow, Taylor, Ltd	-----	119
WPH Apartments	-----	113
Wright, Arthur C	-----	31
Wright Village	-----	48, 94, 109
Y		
Yantacaw Village	-----	117
Yates, William V	-----	23
Yousem, Philip	-----	126
Z		
Zager, Alexander	-----	115
Zarrett, Hyman	-----	126
Zurchin, Otto	-----	23